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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

WEDNESDAY, MARCH 9, 1988

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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McLellan, Ray, Research Officer, Legislative Research Service

Witness:

From the C. D. Howe Institute:

Lipsey, Dr. Richard, Senior Economic Adviser

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, March 9, 1988

The committee met at 10:03 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Let us get started. This morning we have the extreme pleasure to welcome Dr. Richard Lipsey to the committee. Dr. Lipsey is no stranger to some of us who have been involved in this debate since 1985. He is a former professor of economics at Queen's University and is now with the C. D. Howe Institute.

I recall, prior to our hearings ever commencing, reading a book that you wrote in 1985, sir, or a pamphlet, and having a discussion with Mr. Morin-Strom in which I suggested free trade was inevitable. Mr. Morin-Strom was not all that hopeful for the work of the committee at that time. We got to know each other a little better and got much more involved in the thing thereafter, but your views have obviously been very important. We are obviously interested in your views now that we have a firm agreement to discuss.

Your brief is in front of us. Perhaps you could lead us through it and then entertain some questions.

DR. RICHARD LIPSEY

Dr. Lipsey: Thank you. I hope my voice holds up. I got out of bed from a case of the flu in order to come and speak to you. But in the 15 minutes it will take me to go through this, I hope my voice lasts, and then I will be glad to entertain questions.

In this submission, I accept the policy objective of liberalizing Canada's trade, which means increasing the access of our exporters to foreign markets. This, after all, is an objective that many people from various positions in the political spectrum have supported and, with more or less enthusiasm, so have all three major political parties.

I look at the proposed Canada-US free trade agreement as a vehicle for liberalizing our trade. I compare it with what might be accomplished in the Uruguay round of the General Agreement on Tariffs and Trade. For this reason, I do not discuss the many criticisms of the agreement that would apply to any trade liberalization--for example, the allegation that the adjustment costs would be excessive or that the effects on a particular industry would be too serious--matters that would apply to any trade liberalization measure we adopted.

Many people advocate rejecting the entire agreement because it does not significantly increase our exporters' access to the US market. They point particularly to the failure to obtain an agreed code for regulating subsidies and dumping. What are we to make of this position?

In fact, the agreement provides for major gains in three aspects of the access issue. It increases the access of Canadian producers to the US market, it makes that access more secure and it promises to add to that security in the future.

These propositions are most easily demonstrated by letting the agreement speak for itself. To do this, I shall work through it chapter by chapter and enumerate all the ways, large and small, in which it enhances the access of Canadian firms to the US market, the market that now absorbs 80 per cent of our exports.

1. By embedding GATT rules into innumerable clauses of the agreement, these rules, which are designed to encourage market access, are given greater enforceability. It will be much harder to ignore them when they are part of this agreement than under the present rather loose enforcing abilities of the GATT.

2. All tariffs will be eliminated on all trade with the United States by 1998, according to article 401.

3. By 1994, the United States will eliminate the use of customs user fees, which are now applied to all goods entering the US market and which amount to 0.17 per cent of the value of import transactions. That is under article 403.

4. Internal taxes, such as sales or excise taxes, cannot be used as concealed trade barriers by levying rates on imports higher than those levied on domestic goods, article 501.

5. Various nontariff barriers to trade, such as the common misuse of standards requirements, are eliminated by article 603. The agreement also addresses such barriers in a more comprehensive and obligatory way than does any other free trade area or agreement, including the provisions of the European Free Trade Association, the European Community and the GATT. We did not get all we wanted on nontariff barriers, but we certainly got an improvement over the status quo.

6. The United States will recognize Canadian accreditation systems and product test data in an effort to reduce obstacles to trade, articles 605 and 607, and of course we will do the same thing on a bilateral basis.

7. Tariffs and quotas will be removed on all agricultural goods except for quotas that are used to support supply management schemes, articles 401 and 702.

8. Free trade is established in red meats, article 704.

9. Significant exemptions are granted from US restrictions on importing Canadian food products containing sugar, article 707.

10. The use of technical barriers to trade for agricultural commodities is restrained; for example, by relaxing US meat inspection laws, article 708.

11. The United States will recognize Canadian whisky as a distinct product and will not permit the sale of any product as Canadian whisky unless it has been manufactured in Canada, article 806.

12. Canadian energy products are given secure access to the US market and shielded from the US threat of countervail under articles 902 and 905. This is particularly important for oil and gas, uranium and electricity. Currently, oil is threatened by US action to limit imports on national security grounds. Uranium is threatened by a court case that may prohibit the use of imported Canadian uranium in American enrichment plants. Electricity has been threatened by proposed countervail actions being studied by US coal producers. Those investigations were discontinued when the agreement was published.

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13. The United States will allow British Columbia Hydro national treatment to the Bonneville Power Administration, that is, fair access to its distribution lines, article 905.2.

14. The agreement changes the rules of origin for automotive products to provide slightly more protection for North American based producers, thus enhancing the degree of access to each other's markets, under article 1005.

15. Some government procurement markets are opened up--article 1304--nothing like, of course, as much as we had hoped, but there is some gain on that front.

16. Free trade is introduced for a wide range of service industries by agreeing to the right of establishment and the principle of national treatment, articles 1401 and 1402.

17. The easy granting of temporary entry for Canadian business and service personnel removes a major barrier to the sale of many products, particularly those that require after-service coverage, article 1501.

18. National treatment is extended to the establishment in the United States of Canadian business enterprises covered by the agreement, thereby making access to each other's markets easier whenever a physical presence is needed, article 1602.

19. Assured access to financial markets is promised when US laws governing financial institutions--in particular, the Glass-Steagall Act--are amended. According to press comment last week, this may occur sooner than was expected. That is article 1702.

Increased security of access, where so much of the discussion has taken place:

1. The clear rules of origin remove all of the uncertainty currently associated with ad hoc decisions of customs officers as to what tariff is payable on specific items as they cross the border, a consistent source of irritation and complaint from Canadian exporters and American exporters on the other side, article 301.

2. The threat of quantitative restrictions used to force countries to adopt voluntary export restrictions is removed. This is an impressive gain to security of access and one, I might add, that should be particularly attractive to the Canadian steel industry, article 407.

3. The right of national treatment gives blanket assurance that Canadian producers will not be discriminated against in the United States with respect to all activities covered by the agreement, except where explicitly provided, article 501.

4. Short of a shooting war, national security can no longer be used to restrict exports of Canadian products to the United States, as was commonly done before the first Organization of Petroleum Exporting Countries shock and is currently being discussed with respect to all oil imports into the United States, article 907. This is a major increase in security of access, access that in these cases is seriously threatened right now.

5. The auto pact was not gutted, so free trade in automotive goods remains secure and entrenched and cannot now be upset without abrogation of the entire agreement. The charge of gutting relies on the one point that the elimination of tariffs in Canadian-US trade will remove the sanction that is used to force the application of domestic production requirement rules. However, for companies that are now members of the auto pact, duty remissions remain on imported parts and cars. In the opinion of most observers, the threat of revoking duty remissions is a sufficient sanction. In any case, if the auto pact had been gutted, the Big Three producers would not now be supporting the agreement, as they are.

6. Canada is freed from US global actions aimed at others, thus removing the long-standing irritant of the so-called sideswipe problem, when we are hit by measures aimed at others.

7. The uncertainty caused by escape clause action, which was used, for example, against shakes and shingles--may I say, when I read article 1102, I could not believe it. I phoned the Trade Negotiations Office and said, "Did you really accomplish this?" And indeed, they did. Escape clause action is now reduced to a minimal level of possibility, both by constraining the circumstances under which it can be used and by restraining its severity; so it ceases to be an indirect harassment to trade, as it was in the shakes and shingles case. It is a tremendous gain.

The dispute settlement procedure will make the application of US trade laws less political. In the opinion of many US trade lawyers, this would have altered the softwood lumber decision if it had been in place.

9. By shortening the appeal process to less than a year, the dispute settlement mechanism makes it easier to redress bad decisions. No one ever suggests the US appeal courts are biased, but it is very easy for the US government, if it is hostile to an appeal, to delay the action for two, three, four or five years. We all know the various ways in which in which lawyers can accomplish that.

In the meantime, the duty has to be paid and is piling up in an account. So the uncertain length of time is a severe barrier against appealing a decision, even when you think you might win it. By getting it down to a strict timetable of less than a year, the recourse to appeal when one feels one has a good case is certainly encouraged.

Finally, the third heading--future increases in security of access: Consultations designed to revise antidumping and countervail laws are mandatory over the next seven years, article 1907. Opponents of the agreement have ridiculed this achievement, but without doubt it provides for a degree of

close consultation that would be inconceivable without the agreement. Those who opposed the agreement, because it did not achieve a breakthrough on subsidies and antidumping, have not explained how they expect to come even close to the level of consultations on these matters that is mandated by the agreement.

To turn down this impressive list of improvements in access, increased security of access and prospects for the future, because we did not get even more by agreeing to a code for antidumping and subsidies, seems to me to be letting the best be the enemy of the good with a real vengeance.

I next come to the point whether the General Agreement on Tariffs and Trade is an alternative. Some people argue that the GATT is a satisfactory alternative to the agreement. In spite of the uncertainty attached to the outcome of the next round of GATT negotiations, due to heavy protectionist sentiment throughout the world, these people argue that Canada could get just as much increased access through the Uruguay round of GATT negotiations as the agreement offers.

With all due humility, I find it hard not to say nonsense to that view. Whatever else the arguments may be, I do not believe that the GATT comes anywhere near to offering us the access I have just discussed. With respect to the points on increased access, the GATT prospects relate mainly to point 2. The GATT offers some chance of improving access by effecting some cuts in some tariffs on some manufactured goods.

Even under the most favourable circumstances, however, the GATT offers us a fairly small fraction of the full tariff reductions offered by the agreement. The GATT may also give us a little on point 7, agriculture, and possibly something on point 16, services, but that is about all. The GATT offers us virtually no prospects on any of the other points. If we reject the agreement and decide to put all our eggs in the GATT basket, we will throw away the rest of this impressive list of gains in access.

The agreement, plus the GATT round, however, promises to provide a major step towards trade liberalization for Canada. Possibly, we could reject the agreement and yet gain the equivalent of the access it offers by working through the GATT and pushing to open up more reliable markets than that of the United States.

Those who advocate other alternatives for developing Canada's trading potential tend to concentrate on the argument that it is wrong to tie Canada's star to a declining economic power such as the United States. The argument would seem to be that Canada should select for its major trading partner an economy that is on the rise, rather than one that is on the decline. This kind of argument is typical of the mysticism that pervades much of the free trade debate.

Let us try to look at it rationally. Although the United States is having its difficulties and may no longer be the unchallenged top economic dog, there is no evidence that it will stop being the biggest and fastest growing market available to Canadian exporters in the foreseeable future. We must assume that anyone who makes this argument would turn down an offer for large scale sales to, say, the Soviet Union, on the grounds that the Soviet Union is far more clearly in decline than is the United States.

I am sure no Premier of a Canadian province would reject such an offer. By accepting such sales, he would implicitly reject the view that we should turn down any possibility of increasing our trade with countries that are not growing fast enough to meet our approval. The correct view, surely, is that access to foreign markets is good for us wherever and whenever we can find it.

I presume that those who advocate this view have some hidden knowledge of how Canadian exporters can break into the markets of Japan and Southeast Asia. Canadian businessmen are now operating in all of these areas, trying to increase their sales. If the advocates of this view know something we do not, they should tell us. Let them tell us how to double our sales in Japan and the Pacific Rim. This would be a truly heroic gain, but it would reduce our dependence on the US market no more than marginally.

Until these critics can tell us how to ship the majority of our exports to non-US markets, they should reconsider trying to undermine the efforts to get more access to the one market that will be our major one into the foreseeable future.

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In any case, history does not support this view. The decline of the UK economy began around 1890 and continued all through the 20th century. The United Kingdom, however, remained our most important trading partner through the first half of this century without our catching the "British disease" or adopting its class system.

The United States offer of preferential access to its mass market has made Canada the envy of the trading world. For a small trading country whose economic health depends critically on exports, the offer seems to me too good to turn down. The business community, which is risking capital and livelihood, is overwhelmingly in support. I would listen to it.

To reject the agreement seems to me to reject one of the most imaginative proposals to make progress on all aspects of market access to come our way since we were first offered charter membership in the General Agreement on Tariffs and Trade. Thank you.

Mr. Chairman: A very strongly put and persuasive argument, and your voice did hold out. If you care to help yourself to a glass of water, there are a few questions that some members have.

Mr. Morin-Strom: I do not have a copy of it here, but this morning I saw in the Toronto Star an article which quoted businessman Frank Stronach as saying that while the agreement in total may be good for the owners of businesses, it is bad news for workers in Canada. I wonder if you could react to that contention.

Dr. Lipsey: I would certainly say that if I believed it, I would not be supporting the agreement. The majority of the people who are going to be affected are workers. It seems to me that business and workers are all in the same economic boat together. We are all going to lose if we lose market access, and business and workers are going to gain if we get an increase in market access and that access becomes more secure.

I would only point to the growing economic health of our country. As we reduced tariffs in two major rounds, the Tokyo and Kennedy rounds of GATT, our exports rose, our employment rose and our real incomes rose. I believe the

same thing will happen when we cut tariffs this time. History will not unfold itself in any different way than it has over the last 30 years. Therefore, I confidently predict there will be a rise in employment and a rise in the quality of the employment as we get better and higher-paying jobs.

We are looking into the future, anybody could be wrong, but if I seriously doubted that, as I say, I would not support the agreement.

Mr. Morin-Strom: Your presentation here is focusing almost solely on trade-related aspects of the agreement; whether or not there are increases in market access.

However, most people who have come before the committee, or certainly many of them, have suggested that this agreement is not really about trade at all, that its implications in terms of restrictions or putting limits on government interference in the economy and the threat to future governments to take independent action from the United States is far more at the heart of this agreement than a marginal change in the trade between the two countries in terms of the direct implications on trading between the two countries.

Why have you not addressed the issue of sovereignty and the ideology which is inherent in this agreement?

Dr. Lipsey: Because I was given 10 minutes. These are all extraordinarily complex issues. I would be very happy to come before the committee and address it on sovereignty. I have in front of me a paper that was delivered in my absence at the Saskatchewan western conference yesterday. Unfortunately, the flu stopped my delivering it. It is entitled The Sovereignty Issue, a paper prepared for the Western Canadian Conference.

It is a very complex issue. It would take 15 minutes to present that. I am very happy to table it for the committee and to come and defend it, or I am happy to talk about it now, but my answer is that I could not talk about all issues so I decided I would talk about the access issue.

Mr. Chairman: Perhaps we could borrow that and make copies for members of the committee and we could peruse it later.

Mr. Morin-Strom: Could you tell us a bit about the C. D. Howe Institute? I would like to know whether, within the C. D. Howe Institute, there is a universal agreement among the various economists working for the C. D. Howe Institute that this is a good deal for Canada.

Dr. Lipsey: Sure. I may just take a minute on that. As an independent research body, we think very, very hard about taking stands on policies. There are two sorts of issues; one of them where we say there is more than one reasonable stand, and we just say, "Here are the costs of policy A and the costs of policy B," and try to enlighten it and leave it at that.

There are other issues where we feel the balance is so strong that we are willing to take a stand. We have taken a stand on the budget deficit and we have taken a stand on free trade; therefore, we felt not just that the arguments were on one side, that they were so strong on one side that we were willing to take that stand. That is the direct answer.

The first reasons for taking the stand were laid out in the book that the chairman referred to, in the original that Murray Smith and I wrote. Just one more thing: I did not start out like that. As I have said before, I am no

knee-jerk free trader. I have spent 17 years in my professional life in England and I opposed England entering the European Community because I thought the circumstances were different.

I was asked in 1982 to write a chapter of a book on Canadian-American relations and I was asked to write the economics chapter. In the course of that, I went back and read Canadian commercial history in its relations with the United States. I read everything I could for a year, and in the course of that study I came to the conclusion that the free trade arrangement was the way to go, and was the only real game in town to protect our security as a small trading country. The reasons for coming to that, an analysis of all the alternative trade policies, was laid out in that first book where our reasons for taking this line can be found.

Mr. Morin-Strom: I take it there are no left-wing economists within the C. D. Howe Institute.

Interjections.

Dr. Lipsey: There is no left-wing and right-wing economics. There is good and bad economics.

Mr. Morin-Strom: There is good bad economics. I see.

Mr. Chairman: Dr. Lipsey, I did not hear you.

Dr. Lipsey: I said there is no left-wing or right-wing economics. There is good and bad economics. What economics tries to do is to take positions and expose them to evidence. As a professional economist, that is what I try to do. If you want me to name a few left-wing positions that I accept as an economist, I can. I am all over the lot politically, because I think there are good and bad policies all over the place.

I just reject the view that you have to have a political position determine your economic advice.

Mr. Morin-Strom: In terms of economic direction, do you think we should be moving our economic system closer to, in terms of a model of an economic system, the American one or the Swedish one?

Dr. Lipsey: I do not mind. I am going to answer the question but I will just say I do not know just how relative it is to the free trade discussion. But none the less I will deal with the question.

We all have our positions. My position is what I call social democracy for the 21st century, not the 19th century. I believe what social democratic parties have learned throughout the world in the past 30 years is that the private market is a better vehicle for creating wealth under uncertain circumstances than is government activity most of the time; but that if you want to have a welfare system with a just and humane society, there is no way you can replace government intervention.

So I find myself four-square with European social democratic parties in wanting to see the market given more stress for creating wealth, and the state intervening more and more effectively to redistribute that wealth and create a good and fair society. But I do not know that that gets us close to free trade.

Mr. Chairman: I think Mr. Morin-Strom's questioning is based on a

premise that a free trade agreement may result in these eventual things occurring, and I think your paper to some extent argues against that and contradicts it, especially with the suggestion that we did a lot of trading with Britain without necessarily assuming their values.

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Mr. Pelissero: In your study of the issue, what would your estimate be in terms of job creation over either a five-year or 10-year period with respect to the agreement?

Dr. Lipsey: I think the job creation debate has been much confused, and I think economists are particularly guilty for letting some of the confusion grow up.

You have to ask yourself what question you are trying to answer. I think the question that most people were trying to answer was: What will the impact effects be? Will there be a lot of adjustment? Will the impact of this agreement be expansionary, in which case it will tend to create employment? Will it be contractionary, in which case it will tend to reduce employment? Virtually all of the careful studies, although they have differed in number, have all agreed that the impact effect will be expansionary; it will tend to create more jobs than it will destroy, and that will make the adjustment easier than if the impact had been contractionary.

But in the long run, it is not about the number of jobs; it is about the quality of jobs. In the long run, full-employment policy depends on a decent government macro policy of fiscal and monetary policy. It depends on decent labour market policies to reduce frictional and structural unemployment. That is where full employment is produced.

What free trade and what tariffs do is change the quality of the employment. With tariffs, we protect people in low-value-added, low-wage jobs. Without tariffs, we encourage people into high-value-added, high-wage jobs. If you ask me over 10 years, I will say by far the overwhelming effect will be on the quality of jobs, not the number of jobs.

Mr. Pelissero: We have heard, as you said, what economists say and what the federal government says, basing some of its predictions on job creation of 400,000 to 500,000, revised down to 240,000, revised down to 120,000. You are saying that it may have an impact not necessarily on the quantity but on the quality of the jobs.

My constituents are confused in the sense of wondering whether they are going to be able to drive over to Buffalo, as an example, and bring things back duty-free. After explaining to them, "No, you can't do that because there is still going to be federal excise tax and the tariffs are removed only on American-produced goods," they go: "What's the big deal about? Why did we decide to enter into an agreement that is going to have such an impact on such a cross-section of our economy?"

I look to the Super Tuesday races that took place last night; they did a quick analysis of those who were "strong protectionists," and they all lost. The argument was made yesterday by John Bulloch from the Canadian Federation of Independent Business that we had better sign the agreement because the protectionist mood in the United States is growing stronger. I do not know how much water that will hold either now or in the future.

Anywhere between 75 per cent and 80 per cent of our goods now are tariff-free into the United States, and we are talking about the remaining 20 per cent. In some cases, 15 per cent of that 20 per cent involve tariffs that are less than five per cent.

If it is not going to have a significant impact in terms of job creation--you are telling me about the quality of jobs, and we have certainly had other groups come before us and say that is not the case--if 100 per cent of our goods were under some kind of tariff into the United States, then I might be willing to agree that we need to make such a broad, sweeping agreement with the United States.

I am trying to get very focused so that I can understand and can go out and explain to my constituents because, quite frankly, they are confused, as I think most Canadians are. I think we are doing them a disservice at whatever elected level if we are not able to try to ascertain the facts and let them make the decision in terms of whether it is a good deal and how it is going to impact on their lives.

I appreciate it is your opinion in terms of quality rather than quantity of jobs, but as a supplementary to that, would you care to comment in terms of the value of the Canadian currency versus the American currency if we ended up with a 90- or 95-cent dollar?

Dr. Lipsey: There is a lot there.

Mr. Pelissero: Most of it was editorial. Sorry, Mr. Chairman. The question is, have you done any studies in terms of the currency-related side of the question? I will leave the sovereignty issue alone. We have had groups appear before us who said an 85-cent dollar would negate anything positive. If they felt they had anything positive in the agreement, it would, before long, go out the window.

The question is, do we have a policy of letting our currency float? Do we peg it at between 75 and 80 cents? What happens in 10 years if it goes back to close to 90 or 95 cents?

Mr. Chairman: So you want him to answer basically on currency? We were talking about job creation.

Mr. Pelissero: Yes. He gave me his answer on job creation.

Dr. Lipsey: Just to summarize my answer on job creation: There is going to be more on quality--better jobs. The impact effect will be to create jobs rather than destroy them. It will be expansionary rather than contractionary. The detailed effects on various industries have been discussed at some length, and I believe in the evidence of Professor Safarian here you discussed that at some length and he pointed you to several studies, including, I think, one done earlier by this committee. I have looked at that evidence. So that is on the record and I think it is pretty good stuff--as close as you can get.

On the Canadian dollar, I think there can be no question that the dollar must be left free to be determined on the open market. The exchange rate is the safeguard to prevent any of the more disastrous scenarios that people who are being serious will tell you about. Let us say it was discovered that we could not compete in the American market. I do not believe that, but that is one possible disaster scenario: we start buying far more from them than we can sell to them. The expansion of trade is unbalanced.

The effect of that, of course, is that there is an enormous demand for American dollars because we are trying to buy American goods, nobody wants our dollars, we cannot sell them, so the Canadian dollar falls. The Canadian dollar will fall if it turns out that our ability to expand into the US market is poor compared to their ability to expand into ours.

If we turn out to be better than them at it, then the reverse will happen. The dollar is the thing that saves us from one of the larger disaster scenarios, so it must be left free. In any case, as governments have learned, it is pretty hard in the long run to determine the value of the dollar, although you can intervene to sort out short-term fluctuations.

What happens to the value of the dollar will depend, in the first instance, on what happens to the flow of investment and I think the best evidence is that there will be a lot more investment both ways. There will be American investment in Canada to establish a commercial presence here and there will be Canadian investment in the US to establish a commercial presence there. What happens to the value of the Canadian dollar over the first two or three years will depend upon the net, upon whether, on balance, the capital goes one way or the other, and that is extremely difficult to predict.

If you would like me to, I would suggest it is going to have an effect on the value of the dollar within about two or three cents. You could draw a scenario that would push it up a couple of cents and one that would push it down a couple of cents. To affect it by 10 cents seems to me extremely unlikely. It would take some time to produce those arguments and the evidence for that, but I would certainly be willing to take that challenge if you want. But it is going to be the net capital flow that will determine what happens over the first two or three years.

Mr. Pelissero: I guess I asked the question because, certainly, the Prime Minister has been saying that we are not signing this deal for today, that we are signing it for tomorrow and later decades and centuries. Right now we are at an 80-cent dollar, for all intents and purposes. Ten or 15 years ago the dollar was a lot different than it is today and, if you are of the belief that we should let it float, then 10 or 15 years from now I guess we will have to adjust what we are going to do and react accordingly in terms of how competitive we can be both in the United States and around the world.

Dr. Lipsey: I did not mean to preach, but the dollar is what preserves your competitiveness. The reason we have a 75-cent dollar and not a \$1.03-dollar as we had back in the late 1970s, is that we inflated more than the United States. We had a faster rate of inflation. If the dollar had stayed there, we would have been competed out of the markets. The dollar changes to restore or maintain your competitiveness when you inflate at different rates in different countries.

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Mr. Pelissero: I was always under the impression that we had a 75-cent dollar because the Americans decided it was in our best interest to have a 75-cent dollar directly or indirectly through their monetary interventionist policy. That I will save for another reading time.

Dr. Lipsey: I would like to put on record that it will be very hard to find many international trade economists who will say that governments determine the exchange rate, more than from just in the very short run, from

week to week. The dollar is where it is because the purchasing powers of the two currencies are at about 78 cents. That is the so-called purchasing power parity rate. If you can tell me what will happen to inflation in two countries over a 10-year period, I can come very close--not exactly, but very close--to telling you what the average exchange rate will be.

By far the most important single determinant of the exchange rate is what happens to the inflations. It just stands to sense that if you inflate 10 times as fast as somebody else, nobody wants to buy your goods, so your currency falls to maintain your competitiveness. That is the reason that it is our safeguard. In case there is some unexpected disaster that we lose competitiveness, it is having the ability of the dollar to fall that would restore that competitiveness.

Mr. Villeneuve: There have been statements made, primarily by the Premier (Mr. Peterson), that this free trade accord would be divisive regionally in Ontario. I had occasion to be in Quebec a couple of weeks ago. It argued exactly in the opposite direction. I am pleased to hear that you are scheduled to be in Saskatchewan, which is an area that I believe is positive to the free trade agreement. The people in Quebec kept telling me that Ontario stands to benefit the most from this agreement and yet, for whatever reason, we are opposed to it. Could you comment on that please?

Dr. Lipsey: Let me just go back to one thing about the west because someone said earlier, "We do not have to worry about American protectionism any more." I am glad to see it is waning somewhat, but we certainly have to worry about it. I mention three cases where the west is going to gain unambiguously, and also Ontario and Quebec; that is, we have much more secure access for exports of electricity, uranium and oil. All of those three are severely threatened at the moment; so this agreement will produce security of access for those resource products. Clearly, that is a benefit to the west, but it is also a benefit to Ontario and Quebec for exports of electricity. So we get substantial gains in security of access to the benefit of the west.

Why is Ontario opposing it? I could not answer that one. I will only say that historically, if you look across the country, it has been typically Ontario and Quebec that were the high tariff and the rest of the country that was low tariff, and the great debates over the National Policy pitted Ontario and Quebec against the rest. What has happened, what is so surprising, is not so much that Ontario remains opposed, but that Quebec has turned around. The big change, if you just look at history in Canada, is that Quebec has been converted to the idea that its economic health depends on free trade.

I have no doubt that Ontario will be a big winner. I think the evidence of the tariff cuts in the last two GATT rounds are that Ontario will be a big winner from it. I cannot answer why it is being opposed, but I think there will be gains.

Mr. Villeneuve: I have one further question that is not related to that. It has got to do with the GATT. I for one fear the GATT a lot more than I do the free trade agreement. What can we, as a nation, as a country, do to improve and strengthen our position in the negotiations that are ongoing right now?

Dr. Lipsey: Personally, the next thing I want to turn our attention to--indeed, we have already got some studies going to try to say, "What can we get, what would be realistic, to try to get out of the GATT?" I cannot answer it except to say I believe it to be an important question and we are starting to study it.

Let me just say one thing. In the last two rounds of the GATT, what took all of the attention of Canadian negotiators? Not surprisingly, trade irritants with our biggest trading partner, the United States. In one swoop in the agreement, we solved the bulk of those irritants. So our negotiators are then free to go away and make deals over the irritants with the rest of the world. In the past, we had to piggyback on the Americans because we did not have the negotiating time. Our big concern was the US market. That is where our big bargaining effort went.

We do not have to bargain at all with the Americans in the next round of GATT, so we are free to tell our negotiators, "Let us identify the trade irritants with Japan, the European Community, etc., and then let us push hard." I look to us getting far more out of this round of GATT, other things being equal, than we would have in the past, just because we can now focus on the rest of the world.

Mr. Villeneuve: So what you are saying is that the agreement puts us in tandem with the Americans to strengthen our hand at the negotiation table in Uruguay on the GATT, as opposed to being isolated as a country of 25 million people and having the likes of the Pacific Rim and the European Community to contend with.

Dr. Lipsey: What you have said is correct, and I agree with it, but there is one other point you have not stated, and this is important. In the past, bargaining with the US to reduce tariffs and trade irritants with the US has occupied most of our attention in the GATT because that is our biggest trading partner. If we have solved those issues in the agreement, then that no longer occupies our attention. Our negotiators are free to concentrate on the issues of the rest of the world.

Mr. Villeneuve: Finally, again an unrelated question, you opposed the United Kingdom joining the European Community. In retrospect, could you just comment on that a little more deeply than what you touched on in your presentation?

Dr. Lipsey: Yes. The diagnosis of the UK economy at the time was that it was not competitive. What people talked about was the chill winds of competition forcing the sleepy British businessman to pull up his socks.

[Interruption]

Dr. Lipsey: This was the kind of debate. I am not saying it was true. I am sorry, I should not be responding.

Interjection.

Mr. Chairman: That was myself here.

Dr. Lipsey: This was the kind of debate that went on, that there was a need to enforce competitive behaviour. That is nothing like what the circumstances were here. Canadian businessmen have come to you to tell you they are confident they can compete. There is no suggestion we need to cut tariffs to change the behaviour of Canadian businessmen, so the structure of the debate is different.

The main thing that worried me about Britain was that all the adjustment policies in Britain seemed to me to be anti-adjustment. Rent control and labour market policies discouraged adjustment. Then it was very clear that by

Britain entering the European Community there were going to be big adjustments. I felt that the policies that would encourage adjustment should be put in place first, before it entered.

Again, we have had a pretty good set. I would like to see some improvements in the Canadian government policy, and we are talking as much as we can to try to see if they can, but I think we have a pretty good set of adjustment policies. I think we will be able to cope with any adjustment problems without really serious upset. I think the circumstances are different, in a nutshell.

Mr. Villeneuve: Thank you. An interesting presentation and most thought-provoking.

Mr. Ferraro: I am sorry I was a little late, but I read up on it and I hope I got the gist of it. Dr. Lipsey, I want to ask you a few questions.

First, you start on page 2 to talk about increases in access to the United States, and I certainly would not dispute any of the points you made there. I guess where I have difficulty is when you then talk about increased security in access and you are diametrically opposed to some opinions that we have received in the committee, and we have received this as a government, particularly from studies done by Blake, Cassels, the legal firm the Ontario government has employed in Washington, and other people.

I fully accept that there are opinions on the other side. Admittedly, my bias is leaning towards the fact I am told and I accept that we have no greater security of access to the United States than the day before we started negotiations on the free trade pact. I guess it is the distinction between having increased access, with which I agree, and the idea of security.

When I look at your points, it is further confirmed or established in my mind, and maybe you can enlighten me a little bit. For example, in point 8, page 6, when you say, "The dispute settlement procedure will make the application of US trade laws less political," I have some difficulty with that.

Let me use the example. If you accept the premise that the dispute settlement mechanism will say, "Yes, it is legal, according to your laws, Canada or the United States, or no, it is not legal, with no teeth to change it"--and I am not sure you could ever get that, particularly from the United States--then how is your security enhanced?

Second, I doubt if you are ever going to get away from that political aspect. You are going to have the Senator Heinzes saying: "I'm up for re-election. I've got steelworkers and I'm going to dump all over Canada because it is good for me politically." Quite frankly, I have some real problems with that particular statement. It is irrelevant if you tell him, "We buy \$1.30 of your coal for every buck of steel we sell you." I wonder if you could just comment on the security and the political aspect.

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Dr. Lipsey: A general comment first. I was surprised at that list. I thought when we drew it up it was all going to be on the increased access. Frankly, I was surprised at how much we had got on increasing our security of access. We did not get the big one on the subsidies and antidumping, and I believe we must continue to push hard for it. One has to be clear that we did not get the biggest one of all, but we did get significant increases in our security of access.

Mr. Ferraro: How is that secure, though, if they can apply the same trade actions the same way? How is that more secure?

Dr. Lipsey: Let me just go back to one point, then I will come to it. Take item 7, the escape clause. That is how they got shingles and shakes. That is a very common thing. They have absolutely gutted the escape clause. As I said to you, when I read that, I did not believe it. I phoned the Trade Negotiations Office and said, "Did you guys really get this?" They did. It is remarkable. The escape clause virtually is gone as a trade irritant. That is what got shingles and shakes, and that is worth something.

Now let me come to your question, item 8. I am relying on Gary Horlick, who represented Canada in several of these trade positions. I know it can be debated. I know of no one who says this will reduce our security of access. I think the dispute settlement mechanism has to have some effect in making these decisions less political. We will never know how much until we try. I agree with Gary Horlick that the decision on softwood lumber was a clearly political case, and I think the existence of an international review body would have put severe pressure on the Americans not to make that decision.

I think Alan Rugman, in his book Administered Protection, has gone through a series of these cases, including the Atlantic fisheries case, and has found practices from the Americans on their decisions that are distinctly challengeable. I think it cannot help but improve the quality of their handling of these cases if they know what they do is subject to international review rather than when it is not. I do not know if it is five per cent improvement or 50 per cent improvement, but it has to be an improvement. It has to be better than what we now have. So I think that is it.

Now, let me come to item 9. That is quite important. There is a lot of arguing behind the scenes as to why we did not appeal softwood lumber, but what I think is quite clear is that one of the inhibitions to appealing softwood lumber was that the American government could drag out that appeal for several years. Court cases are very hard to expedite and, all the time, the tariff has to be paid and put interest-free into an account. That is a big disincentive. Getting an appeal process that works in under a year is a significant improvement, and it will make people more willing to go to appeal than they now are. I think that again is some kind of an improvement in security of access.

We have a series of gains in security of access, no one of them overwhelming. We missed the overwhelming things, but each of them is not something I would likely want to throw away.

Mr. Ferraro: I thank you for expounding a little further on that, because when one reads your presentation per se, one can determine that security of access has been attained. I think what you have said is we really have no guarantee of that and you do not know to what degree, if any, that it is attained, but it appears to be so at this point in time.

Dr. Lipsey: If I may, I did not say "if any."

Mr. Ferraro: You said five per cent to 50 per cent.

Dr. Lipsey: I did use the word "improvement." I believe in that. We do not have complete secure access; we never could. We have an improvement. It remains to be seen how much that improvement is, but the movement is in that direction.

Mr. Ferraro: I will accept that. By way of editorial comment, I do not think you are ever going to take the political process out of trade actions against any country.

Dr. Lipsey: You diminish it; that is all. There are more and less blatant ways of getting it, but of course I agree with you.

Mr. Ferraro: If I may--

Mr. Chairman: Before you ask the next question, I just want to point out that we asked Dr. Lipsey to come here for about an hour. It is the case that our next witness will not be appearing, but I am cognizant of the fact that Dr. Lipsey got out of a sick bed to be with us today, and I have four more questioners. So, Dr. Lipsey, if you are feeling all right to carry on past the hour, it may be that the committee will want to, but I will leave that in your hands.

Dr. Lipsey: Mr. Chairman, I am in your hands. I am willing to stay as long as anyone wants to discuss it. If you are not careful, I may even present the paper on the--

Mr. Ferraro: We knew economists were tough, and that is evident today.

You make a statement, on page 6, that "the auto pact was not gutted, so free trade in automotive goods remains secure and entrenched." The final conclusion is, "In any case, if the auto pact had been gutted, the Big Three producers would not be supporting the agreement, as they now are."

I am wondering if that in itself is justification for accepting the opening statement. My understanding, albeit somewhat convoluted perhaps, is that while the duty remission thing remains, the tariff is gone and it is irrelevant. The tariffs were never used but were there as a threat. But perhaps more important from Ontario and Canada's perspective, the 60 per cent Canadian content is gone and it is 50 per cent American.

Dr. Lipsey: North American.

Mr. Ferraro: North American, pardon me. So when one looks at it, and being affiliated with the Ministry of Industry, Trade and Technology as I am, I can tell you there is some resistance and concern, to say the least, as I feel you probably know, from foreign automobile companies. Why the hell would they want to come to Ontario now? Why not go to Tennessee or Louisiana where the labour laws and rates are a hell of a lot less and they still have access to the North American market?

In my view, I have a hard time believing, and I need you to enlighten me, that the auto pact quite frankly is worth a damn. I understand it from the Big Three's perspective, but how the hell does that help all the foreign companies that could not get access to it or that might have wanted access to it? One of the reasons Toyota came to Cambridge, so we are told by the president of Toyota, was that it wanted to work towards auto pact status. That incentive is gone. I wonder if you can enlighten me a little bit.

Dr. Lipsey: I am not quite sure what the question is.

Mr. Ferraro: You have made the assertion that the auto pact has not been gutted, so one assumes that the benefits of the auto pact to Ontario--let us use Ontario, which is obvious--are still there. I have a problem with that. I am told by a lot of people, a lot of sources, a lot of experts that the auto pact is not worth a pot because there is no incentive to come to Ontario or Canada any more.

Dr. Lipsey: OK. Then there are two separate issues. I addressed only one of them and you have directed me to the other one. The first issue is, are the incentives for existing auto producers still there? I think the answer is yes. You are now saying, what about the incentive for foreign auto producers?

Mr. Ferraro: Can I interject for a minute? I have some difficulty accepting your first statement because Toyota, for example, did not get included in the exemption status. Your first statement, I think, is a little incorrect.

Dr. Lipsey: My first statement?

Mr. Ferraro: Your first statement; if you said existing auto manufacturers in Ontario--is that what you said?

Dr. Lipsey: Let us agree on the Big Three because I cannot remember what I did say, but let us stick to the Big Three.

Mr. Ferraro: I was trying to say there are companies in here now that are not in the auto pact.

Dr. Lipsey: OK. Now for the second question, to which I am not going to be able to give you a tight answer, what has this agreement done to the incentives for foreign-based auto firms to invest in Canada?

Mr. Ferraro: Or that are already in Ontario for parochial interests, but are not included in the auto pact now, such as Toyota.

Dr. Lipsey: They are already here.

Mr. Ferraro: Right.

Dr. Lipsey: I cannot give you an off-the-cuff answer to that one, about what it has done to the incentive for a further round of investment. It is not any help to say that we know existing projections tell us we have already got fairly heavy overcapacity in the automobile industry and there may not be a further round of investment in the foreseeable future. The problem is going to be to operate all the investment that is now in place in the North American market. We are talking about policy for 50 years down the line, so that is not a sufficient answer, but I think that certainly for the next 10 years and more our problem is going to be to use the investment we have, not to get more.

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Mr. Ferraro: Without putting a partisan stripe on it, is it not a little hypocritical to hear some of the proponents of free trade saying that really it boils down to competitiveness? I was not able to attend the meeting yesterday, but I listened to the presentations. "Really, what this free trade deal is all about is the fact that we think Canadians can compete, and we are going to have to compete in order to survive." If one accepts that as a major

thrust of the agreement, is it not hypocritical that indeed on this one particular section they have precluded foreign nationals and included only the Big Three and Volvo and CAMI Automotive, I guess. Is that not in itself a contradiction in terms?

Dr. Lipsey: Negotiations like this are all about power. I think it was utterly unrealistic to think that the principles of free trade would be unleashed on the automobile industry. Without pointing any fingers, I can tell you what the howls would be in Ontario if one said we were going to remove all assurances of anything and just let free trade operate. I think that was quite unrealistic. Sure, the auto pact remains a very specific type of managed trade, as many people have pointed out. It continues as such. The automobile industry is not turned loose to the forces of completely free markets. Whatever I might or might not want, I think it quite unrealistic to think anything else. It is going to remain like that.

Mr. Ferraro: I guess the last question I have is, if one is economically minded, as you are, and I respect your opinion, one can perhaps accept, as you have, all the positives as opposed to some of the negatives. I guess that is what you have done in reaching your conclusions.

What I would like you to do is elaborate for me what you consider the major negative aspects of this--you alluded to one, that we did not get a trade dispute settlement mechanism for subsidies and nontariff barriers per se--with particular reference to a great irritation for me personally. That pertains to the energy aspect, whereby in essence, to be blunt, because we are in a continental energy plan, the United States to some degree tells Canadians what price they can charge for their own natural resources, if you accept that, which I think is fairly accurate.

Quite frankly, I do not think it is any of their damned business. I have said it before and I would be willing to risk a lot that we would never have got that from the United States. So tell me what the negative things are, the shortcomings, if any, with particular reference to the energy thing. Finally, can you tell me what the United States gave up?

Mr. Chairman: In answering that, I wonder if you could elaborate a little on articles 902 and 905. I had not been aware that they exempted the energy sector from the availability of countervail. That was interesting news to me.

Dr. Lipsey: I regret that because of suffering from the flu, I did not bring my copy of the agreement with me. I assure you I am never anywhere without it. But let me see, before I forget, if I can answer some of these major points.

I think we gave up, on the sovereignty issue--which is the subject of the other paper I have tabled for you--very much less than the public debate would have it appear. In particular, let me address energy, which you have suggested to me.

One of the things that I think a lot of the people who commented in the outside world--I am not suggesting anyone around this table--seem unaware of is the obligations that we have under the General Agreement on Tariffs and Trade and the international energy agreement. Indeed, there is almost nothing--and I am just trying to protect myself in case I have missed something--in that energy chapter that is not already in the GATT or the international energy agreement.

Indeed, our commitments under the International Energy Agency go much further than in this agreement. What we have done here is to make explicit our GATT commitments. This may be not just a matter of words because, as I already mentioned, I think it will be easier to enforce GATT commitments bilaterally than it has proved to be multilaterally. What we did in energy is what we have already agreed to in the GATT.

Specifically, let me just say two things and then ask if there are any other questions. We do not give up the ability to price energy. Ontario Hydro, to take an example, can sell electricity at different prices to different markets, as it now does. There is no restriction on our ability to sell at different prices in different markets. The only thing that is given up, as is given up under the GATT, is that the government of Ontario, let us say, cannot pass an order in council saying that Ontario Hydro must sell at one price in the United States and another price in the Canadian market. The ability to have different prices determined by our energy authorities and by what the traffic will bear, what they think the traffic will bear, is not given up.

We have not given up to the Americans the ability to price our energy. The only thing in there is, if we unilaterally decide--we decide--that there is a crisis sufficient to regulate the exports by government fiat, then there is the famous energy-sharing sector. That is when we decide it at our own unilateral decision. It is something that is going to be a very rare event. It is not something we are talking about regularly, wanting to discourage exports.

Let me say, finally, that the instruments for controlling our energy remain in our hands. Most particularly, we can control the rate of output. We can control the extraction rate. In a free energy market where the price of oil is, say, determined internationally at a world price, what really matters if we want to control anything is that we can control our output, and we can do that. We can restrict our output.

My feeling is that we did not give up anything we were not already committed to under the GATT, although this may become more enforceable than it was under the GATT, and what we gave up is really very little in terms of getting the best from our energy supplies.

There were a lot of other questions. Maybe we would be better to stick to just the energy case.

Mr. Chairman: We have to move on. That was your last question, Mr. Ferraro.

Mr. Ferraro: But I am not sure--

Mr. Chairman: Perhaps you can discuss it with him afterwards because you have had a fair amount of time. We have a number of questions still.

Mr. Kozyra: Mr. Ferraro's last question was to have been my first, on the negative. Dr. Lipsey, yesterday Mr. Bulloch indicated that in the event that either Mr. Broadbent or Mr. Turner were to form the next government, even though they could tear up the agreement, they would not, because of the catastrophic economic implications, as you put it. That is a political observation, but I am wondering if you would comment on that.

Dr. Lipsey: I have never been averse to sticking my head into political rings but I find that one very difficult. They are perfectly able to. I think they would not tear it up. I think they would take the six-month

route. There is nothing to stop them doing it. Again, the whole thing would be fought out again. There would be an enormous debate that would go on again, but I would not stand up and say it is impossible. It is open. There would be an awful lot of pressures.

It is easier to be critical until you have the power levers in your hand, and I think there would be a lot of second thinking, and they would be crazy not to when sitting there with the power levers. I think there would be a lot of second thoughts, a lot of refighting the whole thing again, but it is perfectly possible that they would cancel it if they came to the conclusion that was the right thing to do. They should, if that is what they think is the right thing to do.

Mr. Haggerty: Dr. Lipsey, in your brief this morning, you talked about being pretty well convinced this is the way that Canada should be going with the trade agreement with the United States. I suppose that probably, in your studies and research, particularly in the area of tariffs, that tariffs in the past have been an asset, you might say, to Canada's development. Instead of shipping our raw materials like we have in the past--we do quite a bit of it right now--through tariffs, we have indicated to other persons the jobs should be created here. Tariffs have bought jobs and the development of the industry here in Canada.

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I suppose looking at the word "efficiency" we are not being able to be competitive, but if you look at the multinational corporations that have located here in Canada, through their technology we have been competitive in that area. So tariffs have been a benefit to us.

We can see some industries now moving south. We have seen, for example in the Hamilton area, the Firestone tire company now--since the rules have been changed in the auto pact agreement in this area--has gone south now and will produce the tires there and bring them back into Canada, but there have been jobs that have been lost. In your studies or analysis have you come up with anything in the area of what jobs would be lost, or the speculation that industries could be moving south?

Dr. Lipsey: One of the reasons that led me to the feeling three years ago that we needed to liberalize trade was that we are losing jobs and industries now; that successful Canadian exporters find that the best way to get secure access to the large North American market is to move into that market to get around existing trade barriers and uncertainty with respect to future trade barriers.

So the incentive for our successful exporters to move in to the American market will be largely removed by this agreement; not completely, but largely removed. So I think we gain by encouraging investment and jobs to stay at home, far more than we lose.

Let me just say one other thing that is related to your question and came up earlier. Someone said that the tariffs are really quite small. Where the tariffs are biggest are on exports of manufactured goods that use our natural resources. There is a thing called the effective tariff, which I have no time to go into, but it means when you export manufactured goods that use your own natural resources, the nominal tariff is about doubled on your manufacturing activity. So there is still a big incentive for us to export our resources to the United States and have them manufactured there. When we

remove even what look like small tariffs, we will diminish the incentive to have these goods sent to the US. We will, in other words, increase the incentive to have them further processed here. So the market forces in both encouraging manufacturing here, removing a reason to move to the US in order to get access to the market, both seem to me to be encouraging rather than discouraging.

Mr. Haggerty: Following my questioning, we have seen industry in the northeastern part of United States, particularly around the Great Lakes basin, have closed shop, shut down, numbers of jobs have been lost in locating in the southern part of the US. In some cases--I think of one of the large auto parts industry in Buffalo--companies have moved to Mexico for cheaper labour at about \$25 a week. We have seen in the United States just recently, Volkswagen, within about 300 miles of the industrial sector of North America, has moved: pulled out its operations, gone further south into Brazil and other places, to be able to get cheaper labour to compete on the world trade market.

Where does this all end? Industry keeps moving for their advantage and yet we see the price of the automobiles and the commodities, whatever they are selling, does not come down but goes up.

Dr. Lipsey: There are another whole set of issues there about the movement of industry. Let me just say that I cannot get into them now; there is a lot involved. But industries have moved about the world where they thought there was an advantage in so doing for centuries, for decades in the recent future. That movement, as you mentioned, to Mexico or Brazil, is going to be quite independent as to whether we have five per cent or 10 per cent or zero tariffs in the United States. That movement is not going to be affected by the free trade area. In so far as the tariff has an effect, it is to encourage movement of our production into the United States.

You see, the US is doing what we did to them it the national policy. We said from 1890, "If you want to sell into the Canadian market, you have got to build a plant here." That is what the national policy did. Now, when big markets matter, firms that say, "We have to sell into the mass US market," say: "How do I get security of access to the United States market? I have got to do it by locating there." This agreement is designed to improve the security of that access so they can stay at home more than they would be willing to do otherwise.

Let me just point out one other thing. We do hear a lot of understandable concern about some parts of the United States with loose labour laws. I would just point out that the two most rapidly expanding sectors in the United States are New England and California. Everybody is not all rushing to Tennessee. There are good reasons for industry locating in all sorts of places around the country, and all Canadian industry is not going to pick up and move to Tennessee. There would not be room for them, to start with. I am not particularly concerned about that one, although I understand the concern.

Mr. Haggerty: I just wanted to follow up, if I can find the page here; I had it marked, but I have lost it.

I was thinking, Donald Macdonald was in here. He flagged certain areas that were of some concern to him, and the question raised to him was, "What areas are you concerned about?" He said, "Really, when you come down to it, we are no further ahead with this free trade bill with the United States than we were before, because of the countervailing duty still remaining and the omnibus bill in the United States."

There is an article on this in the Saturday Toronto Star, where they--

Mr. Chairman: I am not sure that is a fair assessment of Mr. Macdonald's view, Mr. Haggerty.

Mr. Haggerty: That is what he said. I am sure he did, because I directed the question to him and I am sure that is what he said.

Mr. Chairman: OK, go ahead.

Mr. Haggerty: Anyway, to back the argument up this morning, or the questioning, the Canadian ambassador to the United States was a little bit concerned about the omnibus trade bill, and he flagged about four or five different areas there. He said the Senate and House bills will broaden the definition of what constitutes unfair subsidy and pricing practices under United States trade law. He indicated that these changes amount to a unilateral redefinition of the United States GATT, the General Agreement on Tariffs and Trade, and the obligation, the imposition of the arbitrary rules of time. He goes on to say it would have some bearing upon the trade bill between Canada and the United States.

He has raised about three or four different ones in that area. What he is saying is that if they continue with this bill here, apparently it does have some direct implications for the agreement between Canada and the United States now; that really the agreement is not worth anything if they continue with this omnibus bill and the tying of all the other nuts and bolts in there to bring it down to want they want in it--not want we want, what we call fair trade.

Mr. Chairman: So your question, Mr. Haggerty, is?

Mr. Haggerty: I am tying it in with what Mr. Macdonald said, too, and based upon your comments this morning that you think everything is rosy and this thing is one of the sweetest deals we have ever seen.

Dr. Lipsey: The omnibus trade bill is an absolutely frightening document. I have read the House and Senate versions of it carefully, and it is terrifying that a major trading country could contemplate such a movement away from multilateralism, which they themselves champion. The world owes the United States the push towards multilateralism and the GATT from 1947, and this shift away to a unilateral approach is, frankly, frightening.

What we do not yet know is what will come out. If you go through the history of bills in the United States, the original bills that go out of the Senate and the House are almost always full of frightening things because, to some extent, the senators and the congressman are talking to their own constituencies and saying, "Look, I tried to get this in the bill; I tried to help you." The political dynamic is that the bills always end up being somewhat less frightening than they are. But even if 10 per cent of what is in it survives, it is going to be a great concern to us.

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I am frankly worried about the bill. I will go this far: If the bill, as it came out of the House or the Senate, were passed, I think we would probably have to rethink the whole US-Canadian agreement, there is so much in it that is inconsistent with the agreement. We will have to wait and see what finally

emerges. History tells us it will be milder, but we do not know how much milder. We do not know if the President will then veto it and we do not know if that veto will be sustained. We have a whole series of don't knows. But there is no question that it is a serious matter of concern to us as a trading nation.

I only wish this agreement had been in place because then the omnibus bill could not have applied to us, because it was so inconsistent with it. None the less, it is a serious matter. It is quite possible that if they pass a really extreme version, this agreement will have to be rethought for the technical reason that there will be stuff in the bill which is inconsistent with it. You have to make up your mind which way you are going to go. We watch with great concern. If we do not have this agreement, we have to be even further concerned because this is US protectionism of the most open, unbridled sort. We do have to worry about it.

I know Donald Macdonald very well. I am sure he did not quite say what he was quoted as saying, that we did not get any more access in this, but let us leave that quote aside and ask, "Did we get no increase in access?" That is what I have tried to say in this. It seems to me there are eight points where we did get an improvement in the security of access. In the big one we did not, but we got some things.

Why throw away what we got, if we got some improvements? We also got the legislated or the mandated need to sit down and talk this over with the Americans for the next five years. It is so easy to walk away from the bargaining table, but getting that written into the agreement is a significant guarantee we will continue to talk.

There are some areas where we are sure to make progress. I will give you one--antidumping, the infamous full allocated cost rule, which is the bane of the Canadian steel industry. If they sell in a slack market below full allocated costs, they can get slapped by antidumping. Both sides understand that is an impediment to trade. I believe that within a year of these extended negotiations we will see a change in the full allocated cost antidumping rule. I think there is a string of gains we will get without waiting seven years. The big one is going to be subsidies.

The big one is subsidies for two reasons. First, we have to educate the Americans on how much they subsidize. They do not know it and they do not believe it. Second, we have to educate Canadians that they can give up some of their subsidy practices and find alternative instruments to the same policy goal because there seems to be some feeling in this country that a subsidies code is going to be a licence to do any old thing we want. It is not. A subsidies code is going to severely constrain both sides on what they do. I think it will be a five-year education process to persuade the Americans how much they subsidize and to persuade Canadians that we can still fulfil good national goals with alternative instruments to those subsidies. If we cannot, then we should not have a subsidies code.

I thought you would have been far more worried about a hastily thrown together subsidies code really constraining our economic policy than about anything in this agreement, which I do not think does constrain our policy. When you look at the European free trade area and other agreements, this is a stunning agreement. It does so many things, it solves so many problems that people in the European free trade area and others have grappled with. In 18 short months they made this enormous progress. I do not believe it was ever possible to make that progress on the subsidies and antidumping code.

What I do think is if we mandate that we talk for five years, we have a decent chance of educating each other and coming to a reasonable balance about how to control subsidies and antidumping. I am sorry for that, but I think it is quite important.

Mr. Mackenzie: Dr. Lipsey, your belief in the value of the private market is obvious and comes through in your brief. I do not want to deal with the various points you have raised, except simply to say almost every one of that them you have listed--the gains or the additional security--are points that have been argued equally strongly the other way. If I can just mention two of them, you would be totally out of step with Bob White, who was here yesterday, in terms of point 5.

You may be right or he may be right. If you read the transcripts, you will find that at least he outlined a few more of his arguments why rather than sort of a blanket statement. In terms of red meat, which is generally conceded to be one of the areas where there are real gains, we had an individual farmer who also gave some specific reasons why he did not agree with that conventional wisdom.

The only point I am making there is that almost every argument you have made has been argued in some cases with a little more documentation than the case you have made. But the one point I want to raise with you seriously, and I understand that all of us come from our own backgrounds, is the comment you made that some of the major businesses in this country agree that it is a good deal and that in effect we should trust them.

The interests that favour free trade include some of the business interests. We have had some of the top business people from various corporations before this committee. From my background--I hate to say how far it goes back now--in the trade union movement and as a political officer for a number of years before I was doing the more general trade union work, I know of the battles we have gone through in this country. I think specifically of five of them: medicare, pensions, unemployment insurance--I never had much to do with that, but I was certainly in the centre of some of the other battles at the trade union level--safety and health, and pay equity.

Of the major companies that have been before us arguing for free trade because it is good for workers, I do not know of one that took the lead, supported us or had anything to do with the major fights to achieve these major social gains and the network of support for Canadians. As a matter of fact, I know some of them, including those represented by two or three of the gentlemen who have been before us, that have been among the toughest companies to deal with and the toughest in trying to see that we did not make these particular gains in Canada.

Further to that, I can tell you that in negotiations that are going on today, and in some cases at one or two of the major corporations that were before us--not a major corporation in terms of some of the textile workers here in Toronto--they have 27 takeaways from their agreement on the table. The Lily Cups Inc. situation is the same.

The biggest thing these companies are zeroing in on is our benefit packages, pension packages and our health and benefit coverage. We have these same companies that you are telling us to trust now leading the fight in trying to knock down workers' benefits, and none of them was there when we were on the major issues.

The last and most recent one is just 24 hours old. That is why I want to know why we should trust these people that you tell us are giving us some good advice on this free trade deal. We have the Massey situation. It has not been easy, given the turmoil in that industry, the negotiations and the threat to jobs for the last several years. But even a strong union had to rely on a letter of intent from Massey, first signed in 1968 and last renewed in 1984, if I remember correctly, that said: "Trust us. We can't put into the contract the benefit improvements or changes you want, but we accept responsibility for them. You can trust Massey." It is now found out to be not worth the paper to blow it to hell.

My question is, given the fight against people's issues all the way down the line, why should we trust these people now to do something that is really going to be of benefit and protection to workers? I do not have anything there that tells me I should rely on them.

Dr. Lipsey: I am grateful for the question because it gives me a chance to see if I can focus what I said about business. Let me just quickly say that I know autos are a contentious matter. I had to list what I believed to be the gains in access. I am very surprised about the red meat, but we cannot argue that now. I would like to see the evidence. That really does surprise me.

Mr. Chairman: It was an individual farmer who said his view was the view of several beef farmers. He was a producer from Bruce county. He indicated that he had not been canvassed by his lobby group before they expressed the view on his behalf, with which he did not agree.

Dr. Lipsey: I do not think there is any question that that access is provided. It may hurt this farmer. I do not know what his circumstances are. But I do not believe there is any doubt that market access to red meat is being provided by the agreement.

Mr. Mackenzie: In effect, it was not the boom it was supposed to be, but as I say, I did not want to get into that. I am just saying there are counterarguments, and some with more detail than you have given, on almost every point you have made.

Dr. Lipsey: I have 10 minutes. I have written at great length. I am certainly willing to debate at more length any of these you want. In fact, we are having an 80-page book come out on the same matter where we are trying to go into it in more detail.

Let me take the key part, unions and firms. I am way out in left field on a lot of social policies. I think that the government's place is to introduce a great number of social policies and force them on more or less unwilling private sectors to establish what is needed for a fair and just society. The place of government is to intervene for all sorts of social policies. What I suggested about--

Mr. Mackenzie: Tell us how we do it also.

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Dr. Lipsey: I listened to a very long speech and I do not mind having it back, but I would like to just see if I can develop this one argument.

What I said we should listen to business about is, is this going to allow Canadian industry to compete in the American market and to create more and better jobs? Is this going to be beneficial to the straight, private production sector of the economy? I think on that issue they are in the front line and their opinion is to be taken seriously. If it is a disaster for Canadian business, then businessmen and labour will both suffer in the same boat. If it is a success, then both business and labour will gain. It is on that limited issue that I was saying that, as people in the trenches, their view is important and is to be listened to.

On all kinds of social issues, they are just one more group and that they have some expertise about their ability to compete in foreign markets tells me nothing about their expertise on social policies with respect to unemployment insurance. I think all of the things that you mentioned, with the exception of equal pay for work of equal value, I certainly support. I think they are good social policies, but that they are good says nothing to me about whether business can judge whether the value of this agreement will be expansionary to the Canadian economy or contractionary. I think it will be expansionary and I think the business community has a pretty good reading on that.

Mr. Mackenzie: Just a final question and very short. In reference to the above, if we are, in effect, going to rely on them and the bottom line is more and more going to be competitiveness or what is good for the marketplace, when we have no record of any of these companies ever having taken the lead in any of these social fights, it certainly raises questions for Canadians beyond the labour movement about some of the benefits they have.

The other question I want to ask you is, do you agree that Canadians should have a vote? Other than some in the top business community, we certainly were not involved--Mr. Robinson was the US ambassador in 1982 and 1983--we were not involved in what led to Mr. Mulroney's decision to go with the free trade initiative. Should there be a vote before this agreement is put in place so that at least there is some legitimacy in terms of the Canadian voters?

Dr. Lipsey: I am no political scientist. Whether there should be an election or a referendum, I do not know. I myself would not oppose any position that was adopted to give people a say in this.

Mr. Mackenzie: You do not think they should have a chance to pass judgement before it is in place on something so fundamental?

Mr. Chairman: I do not think that is significant. Dr. Lipsey.

Dr. Lipsey: No. I think I would just stick to saying that I would not oppose any method of giving the people a say in this matter. I do not know what the best one is. I am not a political scientist to judge on that.

Mr. Neumann: I want to a question about the omnibus trade bill. I think the answer has been given. I would like, however, to explore the issue of the ability of the federal government to enact energy policy or policies related to foreign investment.

Suppose a future Canadian government decided to re-enact policies similar to the Foreign Investment Review Agency as it existed in the 1970s or policies such as existed to more or less equalize the energy costs east to west by taxing exports from western Canada to the United States and

subsidizing the imports that came into eastern Canada. This was done for a few years because of the unique circumstances. Could a future government undertake such policies under similar circumstances with this agreement in place?

Dr. Lipsey: No. The energy pricing policies under the national energy program are ruled out under this agreement as they are ruled out under the General Agreement on Tariffs and Trade. Both the United States and Canada violated their GATT commitments in the 1970s. Since they were both doing it, neither of them pointed the finger at the other. It would have been much harder for one of us to do it if the other was not playing the same game. If we both want to play that game in the future, clearly we can both violate any agreement we want. Under the circumstances of the 1970s, we could do that again, but the agreement per se rules it out, as does the GATT. The difference I point out is that this agreement may be more enforceable than the GATT.

Mr. Neumann: Specifically the export tax that was placed on western crude to the US is contrary to the GATT?

Dr. Lipsey: A production tax is allowed, but an export tax per se is not. We can tax crude at the wellhead. If we think there is a large rise in the prices and there should be a benefit to the Canadian citizen, we can put on any tax we want at the wellhead, to be paid by Canadian and American producers, and then we can use that money as a social dividend in any way we want.

Mr. Neumann: Mitchell Sharp was here on Monday and indicated that he was not an economic nationalist, that when he was in cabinet he opposed policies of economic nationalism such as those espoused by Walter Gordon and Donald Macdonald, but he finds a great deal to fear in this agreement. He would prefer to see Canada continue on the present course under which we have been very successful, of multinational, multilateral agreements and preserving our unique stance in the world. His fear is that we will be seen as the junior partners in a free trade agreement and that the rest of the world will view Canada in that context, rather than as an independent nation establishing our own policies in the world. How do you respond to those concerns from someone who is a very strong proponent of free trade?

Dr. Lipsey: I cannot answer for how the rest of the world will see us. I have heard that fear expressed in political circles, at External Affairs. I would be surprised. I think that if we have a successful, buoyant and healthy economy, we will be perceived as a successful, healthy and independent nation. I see that we have given up no significant aspects of our sovereignty under this agreement, and I believe that will be recognized in the end. I do not think we think any the less of one of the small European countries that is in the European Community. I think we can recognize them as independent units. I think we will be recognized as independent units by the rest of the world, but I cannot answer for what the rest of the world will say.

What I do think I can say is that the best way to preserve our independence and our sovereignty and our cultural freedom, for that matter, is to be healthy and prosperous. I see this as a way of ensuring and growing the economic prosperity of this country at virtually no real loss in sovereignty. I do not think we have agreed to much that is a major restriction on anything that we want to do. There are some, but they do not seem to me to be large. In particular, if we say we take the GATT seriously, then the additional restraints not already in front of us under the GATT are really quite small.

Mr. Neumann: Why do we need to link ourselves so strongly in with the United States on a two-way trade agreement? What is wrong with the approach we have been taking? The multilateral approach has reduced the tariffs around the United States with respect to Canada.

I glanced quickly through your paper on sovereignty. I do not agree with a considerable amount that is in it. I feel there is a risk to our sovereignty. Even with that position, you must admit that we are taking a risk on our sovereignty. Why risk it when the present approach has been so successful for Canada? We have prospered and we can continue to prosper with a multilateral approach.

Dr. Lipsey: That is really what got me to this position when I first made the studies in the book we referred to earlier. I think the prospects of getting any major improvement in our access or securing the access we now have in the next round of the GATT is too small to put all our eggs in the GATT basket. I just think that is a very risky course of action. I am all for pursuing both, but I think the GATT on its own offers us too little probability of too little increase in access to be the only one. It was really the feeling that it was the only major game in town that led me into this position that this is where we should look for further trade liberalization.

I think we have problems. I have already referred to the incentive for successful Canadian firms to set up plants in the United States to secure access, problems of that sort, which will be removed by the agreement, and these are significant gains.

If I thought we were seriously compromising our sovereignty or our cultural future, I would be worried. We can only listen to the arguments and make up our own minds on it. I have listened to the arguments and I do not think we are taking a significant risk on those matters. I look at the evidence of history and the evidence of other countries on that. Of course, we are talking about the future. We can never be sure about the future, but if I felt there was a serious risk, as a Canadian patriot, I would be more concerned with our sovereignty and our cultural independence than with our economic wellbeing.

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I do think that if we do not protect our economic wellbeing, it becomes harder to protect our independence. Why do artists want to go to the United States? Because there are better prospects economically to support them there. The more prosperous economically is our country, the easier will it be to hold the best brains and the best people, the easier will it be to subsidize the artists and so on. I feel that we are not compromising good Canadian policies that will secure our independence in the future, but we all have to make up our minds on it.

Mr. Neumann: The Canadian experiment is a unique creation of trying to build a nation east to west across the northern half of this continent, with a relatively sparse population in comparison to the United States. Originally, the experiment was a reaction to American expansionism, the threat of becoming part of the United States and the desire to preserve the unique links with Britain at the time. In doing so, we developed a stronger presence for government in our economy. We developed very strong east-west linkages in terms of infrastructure in banking, transportation, communications and broadcasting.

By becoming part of a continental trade market, do you not fear that these east-west linkages will break down and the very reason for the existence of Canada will disappear?

Dr. Lipsey: I do not. We do 80 per cent of our trade with the United States now, in a period of time when our trade has grown, when our tariffs have been cut. We have prospered in our independence from 1947 until today. We have developed independent social and cultural policies at the time that we have been reducing our tariffs and trading more with the United States. I do not see that trading more with the United States is going to upset the scope for policy to preserve the east-west rules and east-west linkages in our country. I see that we can continue to follow any of those policies that we want.

I think, myself, that the Canadian culture, the Canadian roots, the Canadian identity are more deeply rooted than some of the critics suggest. Our history, our geography, our immigrant experiences--these are all different from the United States. My belief is that there is a deep Canadian identity and it will certainly resist trading a little more with the United States. I have written on that as well. I have a pamphlet on the Canadian identity.

Mr. Neumann: Do you not think it is kind of ironic that with this free trade agreement there will be better access, let us say, into the British Columbia or western Canada economies for California wines than for Ontario wines? Perhaps if we are talking about free trade, we should be ensuring that, first of all, we have a Canadian common market in place before we give better access to American products into our provincial jurisdictions than we do to each other.

Dr. Lipsey: One of the things I hoped we might get was a Canadian common market, and we did not.

Mr. Neumann: Should that not be a first priority?

Dr. Lipsey: You tell me how to do it.

Mr. Chairman: I do not think we are going to resolve this.

Dr. Lipsey: I would love to see a Canadian common market.

Mr. Chairman: I have one very quick question, if I may. It has to do with the description that I recall from your book with Professor Smith in 1985 in which you talked about a phase-in period of tariff reduction in Canada being longer than in the United States. I think you felt that might be preferable in view of our having higher tariffs, a smaller economy and much greater, wrenching problems with tariffs being phased out. Obviously, we do not have that in any respect. Do you care to comment on that?

Dr. Lipsey: It was a bargaining chip. We played it and we did not sustain it. I argued for an asymmetric phase-in period. I think as a result, though, it was agreed then that the phase-in period would be 10 rather than five years; that is, we took a period that seemed reasonable to the country with the higher tariffs. I think people might have said five years was awfully fast to adjust. So we lost the asymmetry and got a very long adjustment period.

Mr. Chairman: For some products.

Dr. Lipsey: It was 10 years, except where mutually agreed. It was

when the industries themselves asked for a faster one that 10 years was not brought in. All the evidence from other cuts in tariffs is that the adjustment will be much less than people fear. I understand the fears, but as it was in Europe and as it is in Australia and New Zealand, the pressure will be to speed up the adjustment, not to slow it down.

Just one final thing on that: When you think of the adjustment, the rise in the Canadian dollar from 72 cents to 79 cents in the last 18 months is the equivalent to taking off all our tariffs in 18 months, 10 per cent being the average level of tariff. Industry has coped with that, so taking them off at one per cent per year is an adjustment burden people will be able to live with.

Mr. Chairman: Thank you for your help. Your disciplined approach to the subject is obvious in your paper and in your rebuttal to the arguments that have been given to you. Obviously, most of the members of this committee do not agree with you on the basic premise.

Mr. Villeneuve: Some do.

Mr. Chairman: And some do; no question about that. But I think you have given us a lot of area to consider and to continue to debate. I appreciate your coming out of a sick-bed to be with us here today. Thank you.

We have three matters to discuss, and I hope we can do them in a fairly quick period. The clerk of the committee is distributing material regarding Dean MacPherson. The problem with regard to the contract with Dean MacPherson, the dean of law at York University, to deal with the constitutional matter seems to have to do with the fact that he has quoted a fee of \$100 an hour.

Mr. Villeneuve: Is he a lawyer?

Mr. Chairman: Oh yes, he is a lawyer. He has quoted a fee of \$100 an hour, and we do not have permission to spend more than \$85 an hour for any assistance. There is a way around that, and perhaps Mr. McLellan can tell us.

Mr. McLellan: Actually, the clerk can probably comment better on it.

Mr. Chairman: All right. Go ahead.

Clerk of the Committee: I must inform you that the Manual of Administration specifically states that consultants can only be paid between \$60 and \$85.

Mr. Villeneuve: A day?

Clerk of the Committee: An hour. I am sorry. But what has happened in the past with J. O. Associates is the consultant has quoted us a price. In our case it was US\$5,500. No numbers of hours were quoted, simply a price. I suppose we could do this similarly with Dean MacPherson, where we can quote him a price and he can work at his pace and produce the material for us.

Mr. Chairman: It is US\$5,500 to J. O. Associates, and we have budgeted \$7,500. You are suggesting that we do that with regard to Dean MacPherson. He has estimated that the total cost will be in the neighbourhood of \$12,000 to \$15,000.

Mr. Mackenzie: Were those the figures that were given to us originally before we got into the hour deal?

Mr. Chairman: Yes.

Mr. Mackenzie: I think the only argument is whether it is within the ball park in terms of the total figure, and that is the way you handle it.

Mr. Chairman: What are you looking for then, a motion to the effect that we budget a maximum of \$15,000?

Clerk of the Committee: Yes. First of all, a motion to hire Dean MacPherson and then a motion for his payment.

Mr. McLellan: Dean MacPherson mentioned to me about having a student work, and I think it is mentioned in his proposal. The question is whether or not that money for the student would be above the \$12,000 to \$15,000 or if it is built in. I just thought I would mention it.

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Mr. Pelissero: Yes, I know. He wants to hire someone, but whatever we decide on, that is what it is.

Mr. McLellan: He figured the cost for the student would be between \$1,200 and \$1,500. Anyway, I have mentioned that to you.

Mr. Chairman: That could raise the amount to a maximum of \$16,500 if he had his druthers. OK. We need a motion to hire Professor MacPherson and a separate motion on what we will pay him. OK. Motion to hire him?

Mr. Mackenzie: I will move that, Mr. Chairman.

Mr. Chairman: Any discussion?

Mr. Ferraro: I just want the record to show that I will be voting against this motion for several reasons. The first one is that, quite frankly, while I appreciate what the committee is trying to do, I think the utility of it, until we see the federal implementation legislation per se, is somewhat in doubt. Perhaps more importantly, until the Ministry of Industry, Trade and Technology's report and the Attorney General's report on the constitutional survey, if you will, are made available to us, it is somewhat premature on the part of the committee.

Mr. Chairman: All right.

Mr. McLellan: One of the clauses in the contract, or the terms of reference set out, was that the consultant would look at the implementing legislation, and one of the notes I wanted to make to the committee is that I checked with the Trade Negotiations Office this morning and apparently the implementing legislation is expected between the period of April and June 1988.

In point 5 in the proposal from Dean MacPherson, he says, "an assessment of the federal government implementing legislation, if available prior to May 1, 1988." I would put out that we might consider changing that date, because I think that, rather than trying to get this report in by the middle of May, it is extended now to May 31, according to Mr. Carrozza. I would think that if the implementing legislation is available some time in May, it might be appropriate that he be required to look at it; in other words, to extend that date from perhaps May 1 to May 20 or May 25. I think that is one of the important things that you are stressing.

Mr. Chairman: And have a report done by May 31?

Mr. McLellan: I think that is one of the critical parts of the assessment.

Mr. Chairman: That is not giving him much time to look at it.

Mr. McLellan: Or even to the middle of the month.

Mr. Chairman: I think Mr. Ferraro's argument is based on the thought that the whole thing is premature until we see the legislation. I presume you are aware that we were asking him to look at it if and when it is available.

Mr. Ferraro: I am fully aware of that.

Mr. Mackenzie: I think that how it will affect Ontario, which is part of the study, is crucial to anything we do as a committee. That does not necessarily depend on the implementing legislation. I remind the committee that it was the Attorney General (Mr. Scott) himself who suggested that if we wanted these kinds of opinions that are in the study or inventory they are doing, we should hire our own staff. I thought we had been through this debate.

I do not know an issue that is more important, or an issue more focused, than what areas of overlap there are with Ontario jurisdiction. If this committee has any gumption at all, we should be looking for that kind of information. Otherwise, why even hold hearings until we get the implementing legislation down?

Mr. Chairman: I do not think the Attorney General was specifically saying that. It was simply the ministry that was reiterating a long-standing policy. They were not targeting our committee at all, and I have not heard anything specifically from the Attorney General that would suggest that.

Mr. Mackenzie: I was just saying that if this committee is looking at this subject seriously, what we are spending in these hearings on our trip to Washington is no more valid, and probably less valid--although I think it is all important and would support it--than getting this kind of information, if we can get it, from an expert outside.

Mr. Ferraro: I totally agree with Mr. Mackenzie's last statement. I am not sure the trip to Washington is valid either, Mr. Chairman.

Mr. Chairman: Any other debate on the issue? I do recall a discussion occurring earlier but Mr. Carrozza indicates we have not passed a motion to hire him. That is what we are doing right now, if we are doing it.

Clerk of the Committee: If I could further clarify to everyone, even though the committee is going to move a motion to hire him, there are no funds in our budget for this. Therefore, we must have approval of the Board of Internal Economy before we do actually send him a contract for the proposed studies.

Mr. Chairman: Do you wish the motion to include a request for the Board of Internal Economy?

Clerk of the Committee: Yes, please.

Mr. Mackenzie: It has to. It is standard procedure.

Mr. Chairman: All right. Then the next motion you want has to do with the amount. Why would the Board of Internal Economy not--

Clerk of the Committee: We can have the whole thing in one.

Mr. Chairman: We can have one motion. Do you want to amend your motion to say how much you want to pay him and that we request that money from the Board of Internal Economy?

Mr. Mackenzie: I have no difficulty doing that if you want it all in one motion. I would put a figure of \$16,000 on it.

Mr. Chairman: Sorry. You are saying \$16,000?

Clerk of the Committee: I would like to put on the record that we also contacted Professor Joan Lax at the University of Toronto law school with the same terms of reference for the project. As of today, we have not received any further notifications that they wish to be considered. So we have only one individual proposing for the studies and this is what we are discussing now.

Mr. Chairman: The motion on the floor is for \$16,000. Any discussion? Are you ready to vote?

All in favour? Opposed?

Carried, seven to one.

We had a discussion as well about the situation with the press in Washington. It was my understanding that we had instructed the clerk to tell Mrs. Oberstar that the press will be permitted to come into the buildings with us and linger in the hallway and have access to the witnesses where the witnesses wish to have access to the press; that we will attempt to have private meetings but we will not be excluding the press from the buildings or telling them they cannot come.

I am getting pressure, particularly from the CBC, which apparently wants to bring a camera crew from Canada with reporters and the whole thing to be with us, depending on what they see, and they are trying to have this clarified. When that clarification occurs, they intend to make their own contacts with all of our witnesses.

I gather from the clerk that when he called Mrs. Oberstar, he told her that we had not quite decided on that yet. I thought we had, but let us go at it again for his sake.

Mr. Mackenzie: The only comment I would like to make is that, while there can be some use for private meetings and I would not preclude them, I would think that the decision really, from my point of view, should be in the hands of people we are meeting with. If they do not want them in at the meeting, then I am willing to accept that. Otherwise, I do not think we should put any restrictions on the press.

Mr. Haggerty: I would agree with what he said, but I would be a little sceptical that when you take the press there they are not going to control the meeting, in the sense that they will be making more of a nuisance of themselves going in and questioning and so on.

Mr. Mackenzie: I do not think they are there to conduct the meeting.

Mr. Haggerty: They could well, you know. If we are going in with television cameras, they may take advantage of it and it may really not do us any good.

Mr. Chairman: Bear in mind that Mrs. Oberstar, of course, is of the view that they should be excluded altogether and she has approached many of the witnesses with that assumption, although it is not an assumption that I ever gave her.

Mr. Pelissero: I think I would have to agree with Bob. We are going down there as guests, and in some cases they are hosting us; it is going to have to be their decision. I think we have to be comfortable with their decision.

Mr. McCague: Except that I think you have to make it very clear to the person you are meeting with that you are there for a frank and open discussion and that if the press is going to inhibit that on the presenter's side, you do not want the press in there.

If they think it is your request that the press be there, then you are going to turn the whole thing around to a point where they are going to be wishy-washy. So it has to be explained clearly to them that you want an open and frank discussion with them and if that is not going to be possible in the presence of the press, then you want the press excluded.

Mr. Mackenzie: I do not think the argument I have made is exclusive of that.

Mr. McCague: No, not at all.

Mr. Chairman: The one I am concerned about is Mrs. Oberstar. In view of the fact that Mrs. Oberstar may have given them one impression, if the CBC calls them all and gives them a contrary impression, should we then perhaps warn them, through Mrs. Oberstar, that we have made this decision, so that they can be expecting the call from the CBC? They are all grown human beings, and I presume that is not going to scare them out of their wits.

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Mr. Mackenzie: I see. Why do you not tell them that we have no objection to the press being there, but if it means that they will not have a free and open discussion with us, we respect that they can make a decision no?

Mr. Chairman: OK. She should then inform them that we are not opposing the press following us and we would expect them to be allowed into the various buildings with us. Would she please inform each witness that we want a frank and open discussion? If that requires the press being absent, we will keep the press out. Fair enough.

The third matter: As I understood were the instructions of the committee on Monday, we have gone ahead and made arrangements to release the prebudget report today and follow it up at 12:30 p.m. today with a press conference, which would involve members of all three parties and, I guess, the subcommittee.

There is a problem in that on February 11, when Mr. Conway moved the motion to allow us to sit, the motion read "... the standing committee on finance and economic affairs to consider budget-tax reform and the US-Canada

free trade agreement (sessional paper 108) and to adjourn to Washington, DC." The clerk informed me just this morning that means, in Ms. Hibbard's interpretation and your own, I guess, that we do not have the right to file or release any documentation.

My own suggestion is that--and I will let the clerk speak to this, in fairness to him--we proceed as planned and ask the House, when it reconvenes in April, to give us retroactive permission to do so.

Clerk of the Committee: If I could advise the committee, the committee does not have the authority to release a report without the authorization of the Legislature. That is my advice to the committee. You may take it or leave it, but I must warn you that you must realize that there could be serious difficulty for all of you--

Mr. Ferraro: Like what?

Clerk of the Committee: --because you are setting new precedents for the committees to disregard the authorization of the Legislature. Please consider it carefully.

Mr. Ferraro: Why do we not sacrifice one member to be hanged at dawn.

Mr. McCague: If it is you, yes.

Mr. Ferraro: Only if you--

Interjections.

Mr. Chairman: All right. Do not all talk at once. Does anybody have any comment?

Mr. Ferraro: Proceed, Mr. Chairman.

Mr. Pelissero: Before you do, I would ask somebody who has some seniority, either Bob or George, to make some comment in terms of precedents. What happened to last year's report? Was it released before--

Mr. Chairman: Yes, it was. No, wait a minute. No, it was not.

Clerk of the Committee: No. We had authorization to release our report last year.

Mr. Chairman: Yes. I recall releasing a report. I guess it was a trade report once--

Mr. Pelissero: No, no. I am talking about the prebudget consultation. Was that ever released to the public and, if so, when?

Clerk of the Committee: Yes. We had authorization to release it when the House was in session. If it was not in session, then we had authorization to release it from the Clerk of the House.

Mr. Chairman: I do not recall whether the House was in session or not last year.

Clerk of the Committee: It was not.

Mr. Pelissero: Was that an oversight on someone's part or was it an intention?

Mr. Chairman: Apparently, it was an oversight.

Clerk of the Committee: No. I imagine it was an oversight.

Mr. Chairman: I feel pretty confident there is no intention that I feel in any party to prevent us from doing it. Mr. Morin-Strom and then Mr. Ferraro.

Mr. Morin-Strom: What was the status of what we released last week?

Mr. Pelissero: We did not release anything last week.

Mr. Morin-Strom: We put out a statement.

Mr. Chairman: It was a press release.

Clerk of the Committee: It was a press release.

Mr. Morin-Strom: We have the right to do what? There is obviously a special rule, you are saying, for a report to the Legislature.

Clerk of the Committee: That is correct.

Mr. Morin-Strom: Why do we not reclassify this as something other than a report to the Legislature?

Mr. Ferraro: A press release.

Mr. Morin-Strom: Is it my understanding under that rule we do not have the authority to release it to the Treasurer (Mr. R. F. Nixon) either at this point?

Clerk of the Committee: The decision of the committee was to give him one of the drafts we were working on.

Mr. Morin-Strom: OK. If we can give something to the Treasurer because it is not a report, it seems to me we can release the same thing. The whole discussion could have been done in public, for that matter, and drafts could have been public documents all the way along. It seems to me that we can release a draft of the report or we can call it a report to the Treasurer, which may turn out to be the same as the report which goes to the Legislature.

Mr. Ferraro: I appreciate the suggestion of my colleague. It certainly is an interesting one. Quite frankly, while we understand the predicament according to the motion, I believe sincerely it was an oversight. Second, the meetings were open to the public. Third, there was unanimity on the report from all three parties. Quite frankly, looking at it from a different perspective, the alternative is that we do not file any report, at least before the House sits, which in my view is every bit as negative as not going ahead with it at this point in time. For what it is worth, I would be willing to take the lashes on behalf of the Liberal Party as a result of the release of the report and not necessarily have to try to get around the matter by referring to it in another name or whatever.

Mr. Haggerty: As long as Nixon gets a copy of it, though, first.

Mr. Mackenzie: I know the press are expecting to take a look at it. We certainly informed them that there would be a press release today. You are in a bit of a bind. The press do not run things around here, although some people might think they do. I have no difficulty with releasing it. I think we are sort of caught in one of those silly situations. On the other hand, the clerk is probably right. It has been a precedent for a long time. It might pay to delay it either a couple of hours over lunch or till tomorrow and have each of the parties check with its House leader on it.

Mr. Pelissero: A good point.

Mr. Haggerty: And send a copy to Nixon first.

Mr. Chairman: I would be amazed if we do that and it does not get leaked, but I am prepared to if the committee wants us to do it that way to be certain.

Clerk of the Committee: I have all the copies with the exception of--

Mr. Chairman: You have all of them except for the ones that two or three members have right now?

Clerk of the Committee: Yes.

Mr. Mackenzie: I am unable to be there anyhow.

Clerk of the Committee: I have all the copies. There are no copies outside.

Mr. Ferraro: Tell the House leaders now before the meeting.

Mr. Chairman: One of them is probably going to be at it, Mr. Harris I think.

Clerk of the Committee: Mr. Harris is in room 151.

Mr. Chairman: He probably has no idea he did not give us permission.

Mr. Pelissero: Why do you not check, if you can? You can check beforehand or even take a half-an-hour recess, say, to 12:30, or delay it to one o'clock. If not, reschedule for tomorrow.

Mr. Chairman: We cannot have the room at one, can we?

Clerk of the Committee: I will check right away, when the committee adjourns.

Mr. Chairman: OK.

Clerk of the Committee: We just asked for it today.

Mr. Chairman: All right. So the decision then, as I understand it, is we are not passing a motion at the moment, although the clerk would like a motion if we are going to go ahead. Maybe we should have a motion since we will not be reconvening.

Mr. Haggerty: Are we not sitting this afternoon?

Mr. Pelissero: Yes.

Mr. Chairman: Yes, but the motion is that we check with our House leaders, and if we do not get any negative feeling, we will treat it as Mr. Morin-Strom suggested?

Mr. Ferraro: What if they say no? What is the committee going to do?

Mr. Mackenzie: My opinion is that it still should go. I do not see what the hell we lose with it.

Mr. Ferraro: I agree with you, Bob.

Mr. Mackenzie: But I think it makes some sense at least to ask. They may have an argument that will convince me. I do not see what it could be, but they may.

Mr. Chairman: All right. You are almost saying that this is an informative position we take with the House leaders?

Mr. Ferraro: I will move an amendment to proceed and try to contact them, irrespective of whether or not we are successful.

Mr. Chairman: Now how are we proceeding?

Mr. Ferraro: With the press conference.

Mr. Chairman: Yes, all right. Is this in the sense of Mr. Morin-Strom suggesting that--

Mr. Morin-Strom: I hope not. I do not want to be responsible.

Mr. Chairman: Frankly, I thought it was brilliant. If we are not doing it, unless we have some technical way of doing it, we may be contravening the rules of the Legislature.

Mr. Pelissero: Call it a press release as opposed to a report.

Mr. Chairman: Is that satisfactory? Then we technically file the same document as a report in April.

Mr. Ferraro: The Morin-Strom solution.

Clerk of the Committee: What are we doing?

Mr. Chairman: OK. The motion then from Mr. Morin-Strom is that we--

Mr. Morin-Strom: No, it is not my motion.

Mr. Chairman: All right, Mr. Ferraro then. Mr. Ferraro is willing to get hung.

Mr. Ferraro moves that we inform our House leaders, hold a press conference and release the report as if it were a draft report so that the final report is filed in April with the full expectation that there will be no changes in the final report.

Is that all right? Is that what you are saying, Mr. Ferraro?

Mr. Ferraro: Not exactly, Mr. Chairman, but it will do.

Mr. Chairman: Any discussion?

Mr. Kozyra: Should we change the cover to call it a draft report on the title page?

Interjection.

Mr. Chairman: We should also instruct the clerk that the cover will be just as it is now--we will not indicate that it is a draft report but rather that it is the final report--and that the clerk will continue to act as if it were a final report with regard to distribution and assistance. That covers him--

Mr. Haggerty: Are you going to have one copy released to the Treasurer?

Mr. Ferraro: He has one already.

Mr. Haggerty: He has one?

Mr. Chairman: We will release a copy to every member of the Legislature, including the Treasurer, as soon as it is properly filed.

Mr. Haggerty: I was just suggesting that maybe you should give him one of the copies now before it goes to the printer.

Mr. Ferraro: He has the draft copy.

Mr. Chairman: He has had a draft for a week.

Mr. Haggerty: Oh, he has it?

Mr. Chairman: I think there is a cabinet meeting going on. Presumably, they will be handed out at the cabinet meeting.

Any other discussion?

Clerk of the Committee: The motion was not adopted yet.

Mr. Chairman: No. Any other discussion?

Clerk of the Committee: You are not going to adopt the motion?

Mr. Chairman: Yes, I guess, if people vote for it.

Motion agreed to.

Mr. Chairman: George knows something we do not know. I am sorry, do you want to say something, George?

Mr. McCague: I had my hand up, but we have passed the motion.

Mr. Chairman: I am sorry. Any other business?

The committee recessed 12:11 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
TRADE WITH UNITED STATES
WEDNESDAY, MARCH 9, 1988
Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

Individual Presentation:

Hyde, Keith

From the Social Planning Council of Newcastle, Oshawa and Whitby:
Warne, Donald, Member, Board of Directors; Chairman, Physical and Economic
Security Committee

From the Ontario Grape Growers' Marketing Board:

Nash, Brian, Chairman
Rainforth, Jim, Secretary
Smith, Art, Vice-Chairman

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, March 9, 1988

The committee resumed at 2:04 p.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: This afternoon we have Keith Hyde. Mr. Hyde has a presentation, which is in front of us. Mr. Hyde, perhaps you could get started and just lead us through this, if you will.

Mr. Hyde: Do you want me to read this out?

Mr. Chairman: Whatever you like. You can either read it with us and that sometimes helps focus people's attention, or you can expand on it, if you wish, and then, hopefully, you would be prepared to answer some questions.

KEITH HYDE

Mr. Hyde: OK. I will proceed by reading my brief, which I submitted and which is in front of you.

As a Canadian citizen and resident for 21 years, nothing disturbs me more than the issue of free trade with the US and the arrogance of the Conservative government in its belief in and passage of the deal.

After many years of hard work to achieve our own Constitution and identity, we are now being forced into a trade agreement with a rapidly declining American empire. Unlike a lot of other nations, we have in this country the resources, the agricultural base and the technology to charter our own independent course, one that will give us the right to trade with any nation fairly and squarely.

What gives this government the right to undo the independent free trade, social and cultural identity that has taken generations of Canadians to build and one, I might add, that others have died for?

It is inevitable that by tying ourselves into a bilateral trade deal with the US, we will be sucked in in the process, if not immediately then surely down the road, resulting in an erosion of all our social programs and cultural identity that we have built up.

What we need is a government not influenced by big business interests and selfishness, one that has the courage and foresight and political will to open up new areas of trade with the Pacific Rim and Europe and the rest of the world.

If Canadians were worried about their identity in the 1960s and 1970s, well, we will not even have an identity in the future. This will weaken our ability to speak out on world issues, lessen our respect among other nations, and remove our ability to make our own judgements without Big Brother holding the reins.

It will create more disunity among the provinces as greed takes hold among the more wealthy provinces at the cost of the poorer provinces. This government is taking a desperate stand; it is as if the country will not survive without the agreement.

The Reagan administration has built up the biggest US trade deficit in history and we are going to hitch our horses to that. There is more interest at stake here than big corporate business advocating this deal for its own short-term gains. What we have to look at is what is down the road for future generations of Canadians.

Are we too blind to see that the Reagan administration has recently introduced unfair tariffs to force us into a trade deal for its own advantage? Do we not have the backbone to stand up to these political manoeuvres?

The more we tie ourselves in with one large, domineering country, the more we lose contact with our own laws and sovereignty regardless of all the so-called political reassurances.

There are serious questions to be addressed concerning our environmental protection laws and those of the Reagan administration over its delay tactics on acid rain and other environmentally sensitive issues.

How soon will we see American military assistance bases in Canada, using the excuse that we have to protect our interest in our own energy supplies and resources?

There must be a referendum on this most critical of issues, away from the political manoeuvrings of an election. It is critical that the voice of the people has the opportunity and time to debate the complex issues concerning free trade. It is too important to leave this matter to the privilege of a fading Conservative government.

History will judge us as a nation, a nation of independent people who have the will to chart our own destiny. Let us for once stand on our own feet and be proud to be Canadian, independent and free.

Keith Hyde, citizen of Canada.

Mr. Chairman: Thank you. It is pretty clear, I think, where you stand. Does anyone have any questions? Mr. Mackenzie.

Mr. Mackenzie: Just one. Mr. Hyde, you raised the question of a referendum on this issue. I guess my counter to that would be that I think it is an issue that is important enough to require a federal election. I think that is the ultimate decision-making process, and I make no bones about my concern over a straight referendum, which has been suggested by a few people.

I think this issue is so important to some of the interests that, when we see Mr. McDermid with a budget of better than \$12 million, which in effect is taxpayers' money, to organize just the federal Conservative members, I can see three and four times that money being expended by some of the business interests. I am not sure there would not be an effort--although I quite frankly do not think it would succeed--to literally buy such a referendum vote. I would rather see it put in terms of an election and then we have to abide by the will of the people, like it or not. I am wondering if you have any reservations about a referendum rather than an election?

Mr. Hyde: I just feel, as a layman, that it is such a critical issue; it is probably the most important issue that faces this nation.

Mr. Chairman: Mr. Hyde, could you just sit forward, because we are recording your voice and your words for posterity, for ever.

Mr. Hyde: Sorry. Can you hear me now?

Mr. Chairman: Yes. It is just the microphone in front of you that is recording--

Mr. Mackenzie: We could hear you, but the mike might not get it all.

Mr. Hyde: It is nice to know that my voice will go down in history.

I am not a politician. I have basic layman's knowledge, I guess, of the workings of government. I feel that in federal elections, there is too much political manoeuvring. With the Conservatives in power, you have huge resources in finance and money to spend on massive advertising, which they have already done. I feel this issue is outside of an election. I think a referendum is the only real, true way to judge what people really want and what direction they want to take.

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Mr. Mackenzie: I respect your opinion, but I must say I do not share it. I think the issue is so important that there really should be an election. I am curious as to whether you thought--

Mr. Hyde: Excuse me, maybe I am wrong. Somebody can correct me.

Mr. Mackenzie: A referendum does not necessarily carry any particular weight on the deal.

Mr. Chairman: It would obviously tell the government what the people think. They could still ignore it, if they wished to, presumably at their peril.

Mr. Hyde: Could not the referendum become law?

Mr. Chairman: Not under our Constitution, no.

Mr. Hyde: I see.

Mr. Mackenzie: That is why some of us have made the argument as strongly as we can that this issue is simply so important to Canadians that there has to be a mandate before it is put in place. That is why we have called for an election. I think there is no question that is the issue it will be fought on. I agree with you there is always the difficulty that very few elections in our history have ever been one-issue elections. Other issues do get caught up with it and may or may not have an impact on the election. Notwithstanding that, I think the Canadian people have to make a decision. If this is the centre-point of it, and I am sure it would be in an election today, it is going to be the issue most in the forefront.

Mr. Pelissero: What parts of the agreement, from an economic point of view, bother you the most?

Mr. Hyde: What bothers me the most is the provinces and how much infighting it will produce, as I say in my first paragraph. If you look at the western provinces which cannot wait to get the trade deal implemented, if you look at Alberta, the oil-rich provinces, they see money in the bank straight away. What is going to happen to Prince Edward Island and the other maritime provinces?

I see a massive imbalance here in finance. That really bothers me. I would like to see a fair economic situation right across the country, not what are basically still short-term gains just for the privilege of a few energy resource provinces. That is what bothers me the most. Does that answer your question?

Mr. Pelissero: Yes.

Mr. McCague: It is an interesting point you make on the referendum. I suppose you are saying you do not want the politicians meddling in the decision that is made. You want a free vote that does not bring in other facets of governing this province. In a referendum, I am not so sure how many people you would get out and how true a picture of the wishes of Canada you would get. You might get an excellent turnout, but likely not as many as you would get during a federal election. Maybe what you should be advocating is both, a referendum at the time of the election, which would give a clearer picture, because you cannot stop political meddling. We have spent all week here doing just that, and three weeks before this. You cannot stop that.

Mr. Hyde: It is part of the process.

Mr. McCague: In your further presentations, maybe advocating them both at the same time might be the most advantageous way to get the question before the country.

Mr. Hyde: It would be very interesting, because if you put the referendum before the election, knowing there is going to be an election following the referendum, that could also have a tremendous impact on the outcome.

Mr. Villeneuve: Mr. Hyde, you are familiar with the European Community?

Mr. Hyde: Yes.

Mr. Villeneuve: Would you compare this deal that has been struck with the US as something remotely similar or to some degree similar to the EC?

Mr. Hyde: No, definitely not.

Mr. Villeneuve: Could you elaborate on that, please?

Mr. Hyde: The reason I was silent is that I was trying to count up the countries. I know if you get the Eurail pass, I think that is 13 countries straight off.

Mr. Villeneuve: We do not have that many countries in North America.

Mr. Hyde: Exactly. It is not free trade, really. What we have here is bilateral trade between two countries, at the sacrifice of saying that if we are tied in with the United States, that limits us to our own trade with all the other nations of the world.

If you look at the European economic community, that was really advocated by de Gaulle and the Germans following the Second World War. There were the basic three or four countries. I guess there were about five countries--I do not know the exact number--and then other countries, of course. England finally followed.

Mr. Villeneuve: Are you in agreement with England following?

Mr. Hyde: Yes, I am. As an English person by birth, I am in agreement.

Mr. Villeneuve: Were you at the time?

Mr. Hyde: That is a very good question. No, I was not. I must be honest. I was sceptical at first. Again, that was a tremendous nationalistic feeling.

Mr. Villeneuve: Do I not detect a bit of nationalism here in your presentation today?

Mr. Hyde: Of course, 100 per cent. Wow! If you have a Canadian flag, I will stick it up here. I guarantee it.

Mr. Villeneuve: I thought I could see that in there, yes.

Mr. Mackenzie: It is not the mouse and the elephant.

Mr. Hyde: If I can say something, on the way down here I was saying, "What am I going to speak about?" It is pretty nervous for me to be sitting here, but as time goes on, I guess, I hope I will feel a bit more relaxed. I spoke to my friends and neighbours about it this week. We are a close group of friends. Looking at me, you may be trying to figure out what I do for a living. I do two things for a living. I have my own small industrial business and also I am a professional photographer. Most of my friends are very small business people. It could be a graphic artist, a stockbroker, a freelance artist, a photographer; just average Canadians sitting around at dinner and talking about this.

If I have 20 close friends and those 20 close friends do not like this trade deal and I know they are not just agreeing with me, I find that very disturbing. It seems to me that it is big business, the banks and the corporations that are advocating this, not the average Canadian on the street.

I have the time to be here. I have taken the time. The average Canadian getting the eight o'clock bus in the morning and coming home at five o'clock at night switches to some other channel. I have taken the interest because I am very concerned about this. I am proud to be a Canadian. I am proud to be here. It disturbs me so much that maybe I will go on to New Zealand or Australia or something like that.

Mr. Villeneuve: Twenty years from now you may sit someplace in New Zealand or Australia and say, "I did not agree with the deal in Canada and that is why I am here, but it turned out to be a good one," as you have just said about Mother England joining the EC. Is that possible?

Mr. Hyde: No, I do not think so. I see the European trade agreement as a totally different situation. I think it is good for each country. Because of the complications of borders, close proximities, high density and

tremendously diverse industrial business situations, it actually makes sense for the European countries not to fight each other.

If I may just refer to David Suzuki, whom we all read in the newspapers and columns, I have a copy here, but that is sort of plagiarism to read something like that. He made a very good point during the week, and I have made it right here before him. We are almost the envy of the world in what we have. It is phenomenal what we have. We do not stop to sit down and think of it. Repeating, we have all the resources we could ever need. We have all the agriculture. Hypothetically, if we close the borders tomorrow, we will survive.

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The basic question is, does anybody ever ask why we need a free trade deal if we have been going on happily ever after for all these years? It is almost like the world is going to collapse on us tomorrow. We are not going to sell any more lumber or forest products or oil. It is almost like desperation. That is what disturbs me.

Look at the Japanese situation. They may be great producers, but they are in a desperate situation regarding resources.

Mr. Mackenzie: All they buy from us is our resources.

Mr. Villeneuve: I find it interesting that you use the word "survive." I think we do much better than survive; we have a buoyant economy. If we were to close the borders, I say to you that would not quite be the case, and I think the word "survive" which you used probably would be the best scenario.

You have not addressed the General Agreement on Tariffs and Trade. I personally feel that GATT is a much bigger player in this game than is the agreement with the United States, because we need the US to deal with to maintain our standard of living as opposed to simply surviving.

Could you possibly throw in the GATT scenario here as well? We are a signatory to it. GATT decisions worry me much more than the different things that we have seen in the free trade agreement. Could you expand on that a bit?

Mr. Hyde: Only by saying that we have lived under the rules of GATT, I understand, since their existence. We have lived by those rules. It is now the United States that seems to be changing those rules for its own political advantages, to protect its own country. As I say here, I see this as a pressure tactic.

Mr. Villeneuve: You feel there would not be pressure had we not signed the free trade agreement?

Mr. Hyde: Of course, there would be increased pressure, but do you give in because of that?

Mr. Villeneuve: I do not think we are giving in at all.

Mr. Hyde: Where is the political will? We have been tied in with the Dominion and the mother country of England for--how long? This is the only time we have been on our own really and truly as a nation. So why? We have enjoyed this wonderful freedom. Why go and tie ourselves into a bilateral trade deal with the United States? Every dog has its day, as they say. Let us

face it. The United States is surely having its day now. It is foolish to tie ourselves in to a declining country. All the indicators are there.

Mr. Villeneuve: Someone sat in that same chair this morning and said we were tied in to Mother England back in the late 1800s, early 1900s, when that economy was very much in a downturn, and we did not catch the disease. Do you not feel that it is possible we could continue in that light and continue to expand the dealings with our basic, largest trading partner under some sort of a formal agreement which may help us in GATT negotiations as opposed to going the other way?

Mr. Hyde: Why? Why do we need it?

Mr. Villeneuve: You feel the status quo is still very much an option.

Mr. Hyde: Yes.

Mr. Villeneuve: I do not.

Mr. Chairman: Just as a supplementary to what Mr. Villeneuve has been asking, are you a member of the Canadian Federation of Independent Business by any chance?

Mr. Hyde: No. I am microsmall. It is me.

Mr. Chairman: You mentioned, though, that most of your friends are small businessmen and that 19 out of 20, you would estimate, are opposed to this agreement.

Mr. Hyde: Yes.

Mr. Chairman: We had Mr. Bulloch in here yesterday indicating that in that organization, I think he said, only 7.8 per cent of the members would be opposed to the free trade agreement.

Mr. Hyde: You know why.

Mr. Chairman: That seems to be quite contradictory to what you are saying.

Mr. Hyde: I should explain. I have never met Mr. Bulloch. I am aware of him, I have read his articles and I know what he represents. He basically represents small business. I would put that down as companies in the size of 20, 30, 50 or 100. What I have spoken about, I guess, is, to use a phrase, microsmall business, which is Keith Hyde. I am the greatest entrepreneur, because there is just me. I do everything myself. I write out my purchase orders out, I do the invoices, I do the deliveries and I do the whole lot.

Going up one stage from that, I have a friend in small business in the graphic design business. He does catalogues for Eaton's and Simpsons and has himself and four people.

The difference is, what nobody has looked at is the personal reasons, and this is what we are doing sitting around. Once again, Canadian people, when you really sit down over a drink anywhere, do not like it. Mr. Bulloch likes it because it is representing small business but also big business, because they can pick up subcontracts. They can bid on subcontracts in the United States from the aerospace or automotive industry. Of course, why not? But it is business.

Are we really looking at the personal social factors here? What bothers me down the road is that with all the social factors, programs we have built over the years, it is almost inevitable and possible that once you are tied into an agreement, the pressure will be enormous to go along with the systems they have in the United States. Maybe the health program would be a good example. Why should the government of Ontario be burdened with these problems? Let us go to what the United States is going to.

Do I make any sense?

Mr. Chairman: Yes, you do, and I think you have clarified that. It defines perhaps where Mr. Bulloch's organization is coming from, and also you are representing a whole interest group, I think, that we had not really heard from before.

Mr. Ferraro: I will be brief. I just wanted to say to Mr. Hyde that he is exactly right and I am sorry I missed Mr. Bulloch yesterday--I did watch him on TV--but there are 400,000 small businesses in Ontario and 90 per cent of them have fewer than 20 employees. Quite frankly, I think the survey indicated in general terms, "Are you in favour of free trade and reduced tariffs?" That is a different story to asking, "Are you in favour of this deal?"

I guess what I want to say to you, Mr. Hyde, is that I have enjoyed your presentation and I can only tell you that I am sure it probably took some courage and some of your friends probably shook their heads at you, thought you were nuts for coming to speak to a legislative committee. As a member of this committee, I can only tell you that your presentation, albeit brief and informal, if I may use that, is probably every bit as enlightening to me as many of the other formal presentations we have received as a committee.

I would say in conclusion that the only thing that bothered me about what you said was when you alluded to the fact that you may want to pack up your microentrepreneurship and head off to New Zealand or Australia. I can say to you, Mr. Hyde, that if that would happen, then it would give reason for every member of this committee, which does not necessarily have unanimity on any issue, to do the same. I would strongly suggest that you give that further thought.

Mr. Hyde: Yes. That would be a last, desperate resort.

Mr. Chairman: Especially when Australia and New Zealand have a free trade agreement with each other.

Mr. Hyde: It is a nice country. I was down in New Zealand. It is a very nice place. I think because of New Zealand's isolationism, though, it makes sense, and lack of resources. Apparently, they have just struck some oil somewhere down off the coast.

Mr. Haggerty: It is like the United States, is it not, a lack of resources?

Mr. Hyde: Yes.

Mr. Ferraro: Mr. Chairman, before I go--I will be back in a few minutes--just for your information, it came over the wire that Howard Pawley resigned as head of the New Democratic Party.

Mr. Hyde: We have just lost a big advocate.

Mr. Morin-Strom: Was an election called?

Mr. Ferraro: I do not think he has yet, but I do not know; maybe Bob knows better.

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Mr. Hyde: That is very sad news. I respect that man.

Just to recap on that, I have been to New Zealand. It is a wonderful country--60 million sheep and three million people. In fact, they have too many sheep and they do not know what to do with them. It has caused a problem. They need Australia. I remember my mother going down to the store, and she bought New Zealand cheese, New Zealand this and New Zealand that.

When England joined the European common market, that was finished because the rest of the countries said, "No, you have to buy with us." That is a bad point. Poor New Zealand stuck down on its own, not desperate, but getting a little bit desperate. It was a great advantage to join with Australia, and they are basically like minds think alike down there. The two countries are somewhat similar, except for size.

Mr. Chairman: I have not been there. I presume New Zealand is a lot smaller than Australia and must share some of the concerns we have with the United States, but you are not suggesting that. In essence, you may be arguing against your own point.

Mr. Hyde: No, definitely not. I think there is a tremendous difference among the EC, the Australia-New Zealand agreement and this Canada-US bilateral trade agreement.

Mr. Chairman: It may be the population difference is not as great too. I do not know.

Mr. Mackenzie: In terms of population difference, it is about three million to 16.5 million, and the two of them themselves are almost isolated. I do not think you can use that as an example any more than the European Community, because you not only have, as you said, a number of different nations there, but five or six of them are of equal size and all of them have different languages. They are not a mouse and an elephant together, as we are in the American-Canadian deal.

I too, like Mr. Ferraro, really appreciated your presentation on the basis of the fact that it was coming from an individual with obvious feeling and the fact that you have talked to a number of your neighbours. That is really the point I want to raise with you. The chairman actually, as the saying goes, stole my thunder because the question I had originally was, were you a member or had you ever considered joining the Canadian Federation of Independent Business or Bulloch's group?

As you know, they were before us just the other day. They argue rather fantastic percentages of support. I have, for a variety of reasons, summed out that they represent the numbers, although it may be in the question, as Mr. Ferraro also said, and how the question is asked. They do have a substantial number of members who are in the same category as yourself. Those with two and three small restaurants and small variety stores are very prominent among their membership.

Having talked to a lot of those people, an awful lot of them have not been involved in the decision that was presented to us today. I cannot argue with any authority on that. It is just that I have a suspicion. When they get down to the smaller companies and discussing things among themselves, I doubt very much that many of those members in my riding, given their proximity to and their reliance on workers and the unions in my riding of Hamilton East, have a hell of a lot of sympathy for the position we have put forward because they would not get much support from most of their customers.

I am not sure you are alone in that, but I was interested in your comment that you were not yourself a member, so obviously you did not have any part in that decision. But among your friends and neighbours, who are also businesspeople, that is not a view they are holding. I do not think it is that different from the basic membership of the CFIB.

Mr. Hyde: There are not many things I join. I am not very good at joining things these days. I only joined one thing in my life and that was the Royal Air Force.

There is another thing that bothers me about this. This is a bit of a complicated subject, but let us see whether I can have a crack at it. Going around to small industries, the last several companies I used to call on, I am shocked to go to those places in the Rexdale area and see they have now become packaging industries. I can name three companies, but I will not. These are companies that were small branch plants of American corporations.

Mr. Mackenzie: That are now a warehousing operation.

Mr. Hyde: They actually manufactured here. One of them made air conditioners and radiators--specialized stuff. I walked in the door to solicit some business. When the chap took me out back I was shocked. It was like a pizza house. They were just putting things in packages, putting them on the truck. Made in Canada? That is not made in Canada. Made in Canada is banging things together with your hands and putting things together, actually designing and implementing Canadian designs. It is very scary what is going on, this great rush to remove all these traditional Canadian manufacturing small shops back down across the border. Also, do not let us forget what is going on with this removal. Look at the United States now. They have the power to do all this and we have no say in this.

Look at the car plants in the southern states. To be competitive, they have closed them all down and shipped them all across the street to Mexico which has a fraction of the labour cost. They are then going to reimport those cars back into Canada at the cost of Canadian jobs.

What protection do we have? More and more layoffs. We have seen Goodyear and we have seen Firestone. It is just the tip of the iceberg. Maybe we should all go back and be beavers, cut down trees and live in log cabins.

Am I making my point?

Mr. Mackenzie: You do not have to make it with me. Talk to my colleagues in front of me here.

Mr. Hyde: That is a good point. I do not know who is who. I should have a list of who is who.

Mr. Chairman: Perhaps I can quickly introduce them. The three

gentlemen over here are Liberals. Mr. Haggerty is from Erie. Mr. Pelissero is from Lincoln. Mr. Neumann is from Brantford and Mr. McCague is from Simcoe West.

Mr. Neumann: He is not a Liberal.

Mr. Chairman: No, these are Conservatives. Mr. Villeneuve is from Stormont, Dundas and Glengarry and these two over here are NDP, Mr. Mackenzie from Hamilton East and Mr. Morin-Strom from Sault Ste. Marie.

Mr. Hyde: I respect your question.

Mr. Chairman: This is Mr. Kozyra, who is from Port Arthur.

Mr. Haggerty: Correct that. It used to be Erie and many times they thought I was from the American side. It is Niagara South.

Mr. Chairman: Niagara South. I am sorry.

Mr. Hyde: Some of the faces are familiar.

Mr. Chairman: I am from Kitchener.

Mr. Haggerty: In your second column there--I think it is the fourth or fifth paragraph--it says, "Are we not blind to see that the Reagan administration has recently introduced unfair tariffs to force us into a trade deal for their own advantage?" Would you like to expand on that? Just what are you driving at?

Mr. Hyde: Maybe that is a bit simplistic. If I do not fully understand the backbone of all the tariffs and the GATT, I apologize for that. Quite often, if you go back through history, if a country that is large has a lot of clout--politically, militarily and otherwise--can intimidate its next-door neighbour, what a fantastic way to get an agreement--by plunking an unfair tariffs on shingles and shakes or whatever. The more you can do that, the more you intimidate the government. It almost gets to be a panic situation. It is like saying: "Well, let us push them a little further. Let us put on the next tariff. They are fine in the long run." I see it as political intimidation. Maybe that is very simplistic, but that is the way I see it. It is my opinion.

Mr. Haggerty: I thought maybe you were going to make reference to the omnibus bill that is before both Houses now. Amendments are being proposed to it and they will probably put more clout into it at this stage than ever before. That is what I thought you were making reference to on that trade bill. Although we have a proposed agreement here between Canada and the United States governments in this area, there is still that omnibus bill that has certain qualifications that say, "We can do this and circumvent the trade agreement."

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Mr. Hyde: Maybe you can correct me. Do I not read it correctly that there is no guarantee for us on these countervailing situations? I find it shocking that we would sign such an agreement. That is unbelievable. It is almost like--it is intimidation. What else can you say?

Mr. Mackenzie: There are no guarantees against US countervail action. All the committees can do is decide whether or not they are ruling in accordance with American or Canadian law. They cannot do anything about it, and that is the appeal.

Mr. Hyde: Which is meaningless really.

Mr. Mackenzie: That is right, but some people would argue there is some benefit out of the agreement.

Mr. Chairman: Dr. Lipsey seemed to be arguing this morning that there might be some controls over countervail in the energy sector, but generally speaking, all that we have got out of them is an agreement to talk about it over the next five to seven years.

Mr. Mackenzie: He also argued that we could sell--at least I took it as an argument--to the US cheaper. My information is that is not the case.

Mr. Haggerty: Following up here with a further question, I was in attendance at a Commonwealth Parliamentary Association conference in Quebec, in Montreal and Quebec City, and there was a round-table discussion there with parliamentary members from all over the Commonwealth. They had a speaker from one of the western states, pretty close to the Canadian border. His comments about the matter of free trade, as we were discussing it, were that, although there may be agreement between the two upper levels of government, Congress there and the Canadian government here, there will not be free trade until they break down the trade barriers within the 51 states.

The representative from Britain was talking about it and he talked about the European Community. He said: "It is a great organization. We went into it with some feeling that things would not perhaps turn out right." He was a little bit sceptical and he did say, "Even with the European Community, there are some great trading partners there, but one thing that has to be sure when you get into these trade agreements is the name 'trade agreements,' but it has to be fair."

He gave a couple of examples. You have talked about cheese and so on, where Britain is now starting to export dairy products to the common market. They can find the least little thing there. You may have a little bit higher bacteria count and so on and they can stop it right there. He said, "All of them are doing it, but they can use that as leverage." He said there has to be fair trade.

Mr. Hyde: Another point that bothers me, just speaking freely on this, is that I have to keep hammering away at the fact that we are Canadians. I remember there used to be a bit of a joke about it. The Canadians used to go to Europe with packs on their back and they had to put a Canadian flag on their pack to say, "I am a Canadian," because a lot of Europeans, if they spoke, would say, "He is an American." How would a guy in the hills of Spain or Italy know how to differentiate? It is more important than ever that we protect whatever Canadian identity we have.

I made some additional notes during the week. Some may say I am a bit of an alarmist. I see sort of the Americanization of the world. Mothers in New Delhi cannot get their children to eat traditional Indian food; they are all going to the fast-food outlets. They are all American, whatever, the Harvey's or McDonald's. Are we not blind to this, because it is very important, not

only for Canadians? With all these so-called trade pacts, these huge groups, the Asian pacts, the bilateral now between Canada and the United States, the European market, we are all slowly losing some form of identity. Can you not see that? One of the most critical issues to me is for a country to retain all its independence for what it represents, because we are going to get an erosion of those individual characteristics.

What bothers me also is that with this free trade--maybe I am wrong--I see a tremendous loosening of the borders--customs, excise. What do I see here? Law and order, guns, drugs--all looser. Sure, it may sound alarming, but I think I have a good point. That really bothers me. How do you control that? You have to loosen up the borders, because the traffic going between the two will be even more. How do you implement your existing laws on that without closing a blind eye? That is an issue that nobody has thought about, that I have not even seen discussed. It is a critical issue. It is a major problem in the United States.

Mr. Haggerty: You see it in the American schools right now, youngsters carrying guns.

Mr. Hyde: They put it on the six o'clock news every night. You do not need to watch all the programs; it is there. That is a very serious consideration that nobody has discussed, law and order--simple laws, guns and drugs. Because the more you change and follow the other society across the border, the more you start adopting its ways. It is impossible to avoid--10 years, 15 years, 20 years.

Mr. McCague: On that point about opening up the borders, anything I have heard is that the borders will exist the way they are, even though you may be able to bring goods in without paying.

Mr. Hyde: I cannot see that.

Mr. McCague: I am not even sure myself, but I just tell you that is what they say. The border guards, as many as there are now, will not disappear.

Anyway, I was interested in your comment--and this is not in the form of a question. I understand what you say when you talk about the Americanization of the world. Obviously, you have travelled a lot more than I have, but I guess there are McDonald's almost everywhere in the world now, except Russia probably.

Mr. Haggerty: Russia even has them.

Mr. Hyde: There is a Sheraton in Katmandu.

Mr. McCague: Yes. The Americanization is one thing, but you talk about the loss of identity, I think that is what you meant, of England or the countries in Europe. Do you mean that?

Mr. Hyde: In general, yes.

Mr. McCague: Is it because of the trading agreement they have or is it just sort of bound to happen?

Mr. Hyde: It is bound to happen. It is impossible, because only by standing alone on its own feet can a country have an identity.

Mr. McCague: I guess there is a bit of a problem with what you are saying, to this extent. You say we should stand alone.

Mr. Haggerty: Switzerland has been doing it for centuries.

Mr. Hyde: That is right, and highly successfully.

Mr. McCague: That is true, except--

Mr. Hyde: Almost zero unemployment.

Mr. McCague: --they have all the money from the world stored over there. I have seen it.

Mr. Hyde: We will open up.

Mr. Haggerty: You have seen it?

Mr. McCague: I have seen it, yes..

Mr. Hyde: We will become the banking nation of the world. We have stability.

Mr. McCague: We are second here. The fallout shelter for Switzerland is in Canada, in case of problems over there.

Mr. Haggerty: What bank is it in?

Mr. McCague: I will not tell you. However, you can be alarmist and ask, "If we do not have a free trade deal, what is going to happen?" Do you think that we can continue, as we do now, exporting 80 per cent of our exports to the United States at the same time that we espouse the kind of sentiments that you state in your paper or, more particularly, that you have espoused since we got into questions and answers?

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Mr. Hyde: You have made your point. Why do we have to continue 80 per cent with the United States? What is wrong with the rest of the world?

Mr. McCague: Nothing.

Mr. Hyde: Exactly. Have we really tried? Have we really gone out and sold ourselves to the rest of the world? We have a lot to offer. I say it all in here. These countries need what we have. We are politically stable, we have good financial markets and we do not have to get into this desperate situation to rely on 80 per cent with the US. They need us as much as we need them.

Mr. McCague: I think that is a fair point.

Mr. Hyde: Definitely.

Mr. McCague: Are you saying we should not worry about a diminution of trade with the United States, or that we should not worry if they did proceed with some of their protectionist measures, that we should not worry about that?

Mr. Hyde: No, definitely not.

Mr. Villeneuve: We should not worry?

Mr. Hyde: No. I am definitely not worried about that, no.

Mr. McCague: Yes.

Mr. Hyde: That is the squeeze tactic, because how is that going to look? If we stood on our own feet with our own political will, with a good Prime Minister and a good government, one that could stand up to all these political manoeuvrings south of the border, we would really be admired in the rest of the world. We are going to lose admiration because of that.

People will look upon you much more as a nation, a nation of individuals, as I say, by retaining your own individuality and characteristics that make you as a nation. We have to keep looking at this personal point of view, not the business aspect all the time. That is what the crucial issue is. I am convinced that, deep down, if you go into people's homes and chat with the average person, they do not like it.

Mr. McCague: I understand the point you are making.

Mr. Hyde: It is very important that the Ontario government stop its wishy-washiness and make a really true stand against it, not sort of, "Well, we'll see how things work out." Howard Pawley made a stand, whether you believe in him or not. I am not a member of any party.

Mr. Chairman: Are you saying Pawley made a stronger stand than Ontario?

Mr. Hyde: Excuse me?

Mr. Chairman: You are suggesting that the Manitoba government's stand was stronger than Ontario's?

Mr. Hyde: Yes, definitely. I think Howard Pawley's stand was much stronger than Peterson's. Definitely.

Mr. Chairman: Really.

Mr. Mackenzie: In view of a more difficult road to hoe.

Mr. Hyde: You have only to read a newspaper article. It has reached this ridiculous wishy-washiness.

Mr. Chairman: I am just not understanding what is wishy-washy about the Ontario stand, but I may be partisan.

Mr. Hyde: I cannot give you exact words, but from what I have interpreted, I got a feeling that Peterson is still on the sideline saying, "Let's see how things go before I really put my stamp of approval to say yes or no."

Mr. Chairman: I have not heard him saying that.

Mr. Hyde: Either you are 100 per cent for it or you are 100 per cent against it. If you are 100 per cent against it, if the federal government

tries to enact a law and forces it on the provinces, then the provinces take every action they can through the courts and through the law to not be forced into that agreement. I am not a lawyer, I am not a politician, I am Keith Hyde.

Mr. Chairman: Do you have any quotes of Mr. Peterson saying, "Let's see how it goes"?

Mr. Hyde: No, but that is the feeling I have.

Mr. McCague: Mr. Chairman, in fairness to Mr. Hyde, Mr. Hyde came here and has been very forward with us in giving us his own personal opinions. One of the things he has tried to do is tell you that Mr. Peterson's stand is not strong enough.

Mr. Chairman: Yes.

Mr. McCague: Mr. Hyde's stand is different from mine and mine is different from yours and therefore we are all different, but there is no doubt about it that at least half the witnesses who have come before us--that may be a little strong, but at least 25 per cent, and I think more like a half--have said to us, "Mr. Peterson and his government have to take a stronger stand."

Mr. Hyde: Yes.

Mr. McCague: If you do not believe that, I will turn to my colleague behind me.

Interjections.

Mr. McCague: That is a little different from what Mr. Hyde said. I agree with that, but he is saying Mr. Pawley took a stronger stand than Mr. Peterson. I am just telling Mr. Hyde, for his information, that the people who are coming here are telling us that the government of Ontario has to take a stronger stand. I think that is fair, and that is what I want to say.

Mr. Chairman: Yes.

Mr. Morin-Strom: For those who are opposed to the deal, that is a very valid position. Those who agree with it will have a different point of view.

Mr. Chairman: Obviously, we are coming from very different partisan stripes. You are correct, Mr. McCague. We have heard from other witnesses who have said that. There is no doubt that a lot of New Democratic Party members say that.

Mr. Mackenzie: Perhaps the House can make the mandate of this committee stronger.

Mr. Chairman: This is the first witness I have heard who I think is saying we should see how it goes because a lot of politics is in perception. There is no doubt about it. My perception is a little different.

Mr. McCague: Mr. Hyde may have used the wrong words, but I am trying to help him out and tell you what I think he is saying, and he is right.

Mr. Hyde: I appreciate the assistance. I will get up and I will shake your hand, not because of what you represent or what party you

represent, but for the stand you make. I admire you if you say, "I am 100 per cent for free trade." I know where I stand with you. That is what I am saying.

Mr. Chairman: All right.

Mr. Hyde: I am sceptical of the Ontario Liberal government. I can see through it.

Mr. Chairman: Have you any other questions, Mr. McCague? I do not want to interject any more. I will get into trouble here.

Mr. Mackenzie: I am glad that I can honestly say I do not think I have ever met Mr. Hyde and did not know him before, or I am sure I would be accused of a setup here.

Mr. Hyde: I do not represent anybody.

Mr. Chairman: I have an entirely different question, just to change the subject. You have recommended a referendum. That was a common view certainly in the fall and in the period shortly after the agreement came out. Mr. Mackenzie has been asking a number of witnesses about an election, and most of them have been saying there should be an election on the issue. I think you are the first one who has opted for a referendum. As a matter of interest, partly because of your background, because we were trying to figure it out here, in the course of the creation--

Mr. Hyde: You are trying to figure out my background?

Mr. Chairman: No, not your background. In the course of the creation of the common market in Europe, did any countries have referendums, to your knowledge?

Mr. Hyde: Yes, England, Denmark and Holland. England had a very important and critical one.

Mr. Neumann: One of the countries voted it down.

Mr. Chairman: Did it?

Mr. Hyde: Yes.

Mr. Morin-Strom: Norway.

Mr. Haggerty: I have a final question to Mr. Hyde. Have you had the opportunity or have you considered appearing before any other legislative committee across Canada?

Mr. Hyde: I would like to.

Mr. Haggerty: Are there any other committees sitting dealing with free trade? Perhaps if Mr. Pawley would have had public hearings similar to those we are having here in Ontario, he would not be going into an election.

Mr. Chairman: We have all had a few partisan comments to make.

Mr. Morin-Strom: I think Mr. Pawley went a little beyond what we are doing here.

Mr. Chairman: Obviously, you have awakened a lot of interest in all of us. I appreciate your coming down here and presenting your view as a private citizen and also, as you call yourself, a microsmall business person, because I think that is a specific viewpoint that we have not really heard in that same sense and it has been very valuable to us. Thank you very much for taking your time to prepare and come here.

Mr. Hyde: Thank you very much for listening to me.

Mr. Chairman: We now have Donald Warne, who is representing the Social Planning Council of Newcastle, Oshawa and Whitby. Would you like to come forward? We have your brief in front of us now. Perhaps you could lead us through it and then entertain some questions.

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SOCIAL PLANNING COUNCIL OF NEWCASTLE,
OSHAWA AND WHITBY

Mr. Warne: I am a volunteer with the Social Planning Council of Newcastle, Oshawa and Whitby. Our main concern, I must admit, has been with the danger to the social network that we have built up in Canada as a nation. There are other concerns that we see as related to these, but we started with that main concern. I suppose we are not as qualified when we look at some of the other sectors, such as the investment sector, but we do feel we are qualified to express real concern over the future of the safety network for social welfare in Canada if what we call the "bilateral, managed-trade deal" goes through.

I remember in September that much was spoken about the level playing field. I do not think I have heard so much about that recently. It may be because we have discovered that the referee for this playing field is going to tilt somewhat towards the United States and the much-desired settlement committee which was going to have great power is much weaker than anticipated. I would like to put before you the fact that we need to consider other metaphors when we look at this trade deal.

I would like to think of the metaphor of the fence. May I quote an American on this, Robert Frost? "Good fences make good neighbours." When I travelled here from Whitby today I ventured on to Highway 401 and the Don Valley Parkway, and I appreciated the fences. I am very fortunate at home because I have developed a good network of neighbours and it would not matter very much to me in my section of Whitby if the fences came down. They are rather attractive. They are cedar. They could come down, but I would like the opportunity to put them up again if other neighbours who were somewhat objectionable moved in.

In other words, fences are part of our security. It seems to me that it opens up a different perspective on this trade deal if we do not think of the sporting image of the level playing field, which is an incidental effect in our life, but rather think of the image of the fence. Some of you may have farming backgrounds way back there. Many, many generations ago my ancestors put up fences. I know they would not want the bulls of the neighbour's farm to come in when they were not supposed to come in on the herd of cattle on my grandfather's farm.

We know that fences should have lots of gates and preferably not padlocked gates. There may be places where we can have open borders. Certainly

in the experience of Canada and the United States we found that there are many ways in which we can have open borders. But I feel very shaky about moving into a period of my nation's history when we bargain away the right to decide what borders and what fences there will be. That is what I think has happened in this trade deal.

You notice the first paragraph at the bottom of page 1:

"Social and economic priorities will come under pressure through privatization of day care, nursing homes, rehabilitation centres, senior citizens' homes and medical and educational services. There will follow a drop in wages, the replacement of full-time workers with part-time workers and the prevention of the passing of pay equity and other human rights legislation. In this whole area of services, we will find that Canadian policies will be met by the pressure to harmonize our policies and social services with those in the US. Federal services such as those included in the Canada assistance plan (general welfare assistance, family benefits, etc.) UIC and medicare, as well as services under provincial jurisdiction, such as disability insurance and work incentive programs, may be threatened."

I would like to say "likely will be threatened." That is, I think we see, from the recent months of discussion which are recorded in the debates in the United States, that serious questions have been raised about how fair some of our subsidies are. That drives us back to see that we are two distinct nations with different backgrounds.

Partly because of our geography, the farm on our side of the fence does not get as much sunshine. Partly because of the political development of our country, we did not rebel as they did in the United States. Partly because of the harshness of many other factors, we have learned to be interdependent.

I can see that the five, eight or 10 years which follow January 1989 are going to be years in which pressures will come from various factors of US industry, agriculture, social services and supply services, to question the kind of subsidy system--regional development, medicare and unemployment insurance--we have now. Since we have bargained away the right to maintain some sort of fence in the service sector, we see that privatization will be pushed much farther than we have it at the present time; and with privatization of social services very often goes the diminishing paycheque and the hardship on the family that has built up long service. We all know it. I worked in a school, and I know how privatization in the school system has really hurt many people, even though we did not have to. I am looking ahead to years when we will have to, when the pressures will be upon us to do that sort of thing.

In many ways we have sold our birthright for a mess of pottage. We have offered to take down the fences and we have taken the padlock off the well that is not yet toxic. We have not anticipated the time when the neighbour with many needs will look upon our resources as his own. That is why, at the bottom of page 2, we mention just briefly the giving away of the control of our energy resources. If we think of bargaining in a deal like this, we realize that one side has something the other side wants and we pinpoint what the other side really wants, and that is a continental energy policy. If we think of all the fences that are going down, then we realize we have not any bargaining chip--water, energy--on which to say: "Look, we wish to exert our own influence and sovereignty in this matter." We are in severe danger.

I think that the details of the rest of our report are details that you have seen many times, and perhaps this is the time to open our brief up to your questioning.

Mr. Villeneuve: Thank you very much for your presentation. The gentleman before you suggested that yes, if we shut down the gates and put up the fences you speak of--I come from a farming background and I know exactly what you speak of when you speak of fences--we could survive. I do not doubt that at all, but is this what we want after the standard of living we are now used to?

If indeed we have less economic buoyancy by pulling back from our 80 per cent dealing with the United States, quite obviously our economy will suffer and in so doing our social programs will inevitably suffer as well. My personal feeling is that the more we enhance our economic activity, the more we can enhance our social activity and do those things, which I certainly agree with, in helping those areas and people that are disadvantaged. Could you comment on that?

Mr. Warne: Yes, I share your concern that we do prosper and I think Canada has every right to prosper. I may disagree with you, though, on the benefits of this deal in that prospering. It seems to me that when the fences are down, an American company in Whitby may say--take the Andrew Antenna Co. in Whitby; head office, Chicago. It established itself in Canada because it had to have some way to get around tariff protection. That has been a great benefit to Whitby. It has been a clean, quiet little industry. It seems to me there is every indication, though, that the mass production of antennae could take place more efficiently in Chicago and serve the whole continent and serve China, as Canada served China when the United States was not able to serve China so the United States money went somewhere where they could serve China.

I am not sure that this is going to be an economic benefit to Canada. Whitby is involved in General Motors, which is the major industry in our area and in Oshawa. Much as we say the trade pact has not been scuttled, it seems to me that by taking away the tariff protection down the line, we have made it quite possible for GM or Chrysler, when they get in the crunch, as they did in 1980, to say: "Look, we're going to rationalize our industry. I'm sorry, that means that now we are going to scuttle a plant in Brantford" or wherever it may be.

Knowing American industry as I do, I do not expect that the opening up of the fences to them is going to mean that much more. As a matter of fact, as you see by the report, even without this trade deal we have had considerable US investment in this country, and ironically, the US investment has often involved the result of fewer jobs rather than more. If we further raise the level at which we can scrutinize American industry and say, "At \$150 million"--or less than that--"you are small enough that we won't look at your aims, we won't look at your practices, we won't look at your relationships to your employers, we will just welcome you in," it seems to me that we may get some money in, but on what basis, of what durability?

It raises a question in my mind. Again, you mention the standard of living. I recall being in a group that went to visit Minnesota and Ontario Paper Co. near Kenora in the 1960s when we were getting first instances of the pollution of the waters. We had a chance to say to the vice-president, "Look, why don't you divert some of your profits to the cleanup of the waters?" He gave us a very honest answer. He said, "The policy is set in our head office, and that is, 18 per cent equity increase per year or we get out." Canadians can lump it or like it. They just get out; they can go elsewhere.

Even at that time, with whatever force we had to say, "We make a requirement"--and it seems to me the government at the time did not make a

strong enough requirement--"that if you are going to exploit our resources, you must abide by certain environmental principles," it seemed to me it is fair in any country to ask that of an investor. If you are to come in, you must honour what is our stewardship; and if you are to come in, you must recognize that we have built up a network of social services and you must not attempt to bust the union.

I am ashamed to say that one company I invest in--I do not invest in very many--is Bell Canada. I should withdraw my shares; they are not worth as much now. I noticed last year that Bell Canada is buying a unit in Britain and saying, "The only way in which we are going to finalize this deal is if you cancel the union." In other words, in Britain, a union had built up structures to help support it in its work with the management, and a Canadian company goes into Britain and says, "We're going to sever the relationship with the union or we don't buy."

I wonder what kind of standard of living we are talking about. Most of my life I have been poor. It is only in the last 20 years that I have been able to think I can pay off my mortgage and so on. Most of my life I have been poor, but most of my life I thought clean air and pure water were the heritage of a Canadian. Recently, I have begun to wonder, but most of my life I have considered that I have had a high standard of living. I went out to Chemung Lake in the Kawarthas--my home is Peterborough-- and to think of fishing in that lake, to think of Lake Ontario nontoxic. So many things that come across the border are toxic. Their money seems like a blessing, but with it often goes that curse.

Does that give you some idea of our sense that a standard of living is a very peculiar thing? You cannot measure it by the gross national product, which in the United States is slightly higher than here if you measure in financial terms, but I would not want to move to the United States. Even if I were offered \$1 million, I would not want to move to the United States. It is not that I hate the United States, but I feel sorry for it. I really do. I feel absolutely sorry for that nation, which is so caught up--we can see the economic decline in it too. You talk about increasing your standard of living when we know it is the greatest debtor nation in the world.

Who was it who used the analogy? It is like Christopher Columbus. He did not know where he was going, he did not know what he found when he found it, he did not know what to report when he got back, but when he got back he said that the journey was all financed by foreign money. The United States has been on a big journey, and it has financed it by foreign money; now it is going to have to face the consequences.

I have no hesitation in saying that I am going to have a higher standard of living if I retain my right to determine at what stage I will permit co-operation with them.

Mr. Villeneuve: I think the free trade agreement certainly does not do away with that. I believe it is a bilateral decision. I recall that back in the early 1960s, when negotiations on the auto pact were occurring, we had basically the same people on the issue debating against it. You, coming from that very area, I am sure, would recall that. We now have a totally different situation vis-à-vis the auto pact.

To simply blame the Americans for pollution--I can tell you that the exhausts from our automobiles are far from being as pure as they should be, and certainly we are inferior to the Americans in that particular regard. We are probably superior to them in other regards.

However, I would like your comments on the lead-up to the auto pact, which had possibly a little less negotiation and publicity than the free trade agreement. However, the auto pact was opposed by many people for very much the same reasons that you have brought to us this afternoon. Would you comment on that?

Mr. Warne: I must admit that at the time I was not involved in studying the auto pact. For some reason, it did not cross my path. Now, as I look back, I recognize with you that some may have had great anxiety needlessly of certain aspects of it. When I look at the auto pact, I recognize that built into it were sanctions, and the predictions of the harm that the auto pact might bring may not have counted enough on those sanctions, for we know that in 1980, and since I have been really looking at what has happened to the auto industry in Canada, I think the sanctions have worked.

We may not know the whole story, and I guess I have to be humble in recognizing that a change of heart may take place in the United States. They are basically an affectionate people. Things may improve; we hope they will. But it is true, I think on reflection you can say some people were wrong on the auto pact, but they were wrong for the wrong reasons and the auto pact was right for the right reasons. Now those right reasons, the sanctions, are being stripped away.

If you take away the sanctions, then down the road, when the change in pattern comes and the big companies face the need to rationalize, and there are no sanctions, I predict that the bottom line--as with Minnesota Pulp and Paper--will be "Eighteen per cent equity or we pull out." I think we have to have the sanctions.

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Mr. Mackenzie: Mr. Warne, is your presentation from the Social Planning Council of Newcastle, Oshawa and Whitby or is it your own?

Mr. Warne: No. It is the social planning council. I am a volunteer with the council. The executive secretary could not be here today. My committee, a committee of the social planning council called physical and economic security, prepared the first draft and the social planning council approved it.

Mr. Mackenzie: So they are not just your own views. I take it they are your own views, obviously, as well.

Mr. Warne: Yes. I was part of the drafting of it.

Mr. Mackenzie: Do you agree with the argument that this issue should be the subject of a federal election before it is finalized?

Mr. Warne: Our council has not discussed that. I personally would agree. I think it is the most urgent issue that any election could have.

Mr. Mackenzie: You indicate a concern about the branch plant operations here. I had to spend some time with a couple of reporters today, and one of the things that was a concern was the latest figures from the Ministry of Labour on the plant closures. We now have an increase in permanent plant closures that exceeds 42 per cent of what it was last year, and over 60 per cent of these are US-owned firms, which I think will probably be hitting some of the media tomorrow. Do you think this is part and parcel of the lead-up to a free trade agreement?

Mr. Warne: Could you explain "lead-up"? Do you mean an unintentional lead-up?

Mr. Mackenzie: I am not sure whether it is unintentional or intentional. It is just an awful lot of small and some not-so-small firms that are American owned. There seems to be a sudden and considerable escalation in the past year in permanent closures.

Mr. Warne: I agree. Yes, I think that mindset is in that, and I wondered this week about the great name Massey--where is his picture?--but Massey--

Mr. Mackenzie: That does not include Massey or six plants that I wrote about, just less than a week ago, to the Premier (Mr. Peterson) himself.

Mr. Warne: When we import \$800 million worth of agricultural equipment into this country and our last producer, Massey, has gone, it raises a question in my mind. Why should we be forced to import \$800 million worth of agricultural equipment into this country? That is free trade of another kind.

Mr. Mackenzie: When we hit that kind of an increase in permanent plant closures in the last year, and when 60 per cent of them are in American-owned companies, you have to at least begin to wonder.

Mr. Warne: We are talking about a safety net, a safety net for people, a safety net for industry, mining equipment, etc. The question is, why can we not build in Canada what we need? That is where I think we have to make a concerted effort. It is a mindset. I guess what is at stake here is the participation of government in the life of the nation or government getting off the nation's back. I am for the participation of government directly in the life of the nation.

Mr. Neumann: I am glad you clarified the status of your role here. You are representing the social planning council from your area. However, sometimes you get asked questions that the council did not discuss, so perhaps you may wish to respond personally as well.

Yesterday we had a presentation from the Canadian Federation of Independent Business by Mr. Bulloch, who strongly supported the free trade agreement and indicated that the vast majority of small businesses in Canada supported the free trade agreement. Mr. Bulloch showed us a T-shirt, and on this T-shirt he had a picture of the map of the United States with a Canadian flag superimposed over this map and it said, "Canada's 11th province, US eh!" Do you share that vision of the future of North America which Mr. Bulloch described as positive Canadianism, bullish on the future of Canada?

Mr. Warne: No. I see Campeau shaking some mighty places down below, but I do not see that happening.

Mr. Neumann: You mentioned that you were concerned about the level playing field and how this would affect social programs. How do you see this affecting the social security net that we have in this country? We are told it is not at risk in the agreement directly. Do you see an indirect risk there?

Mr. Warne: Yes I do, in the fact that the details of the agreement are to be worked out in the five, eight or possibly 10 years afterwards. We already know that many sections of American industry have raised questions about certain aspects of what they call subsidy. We were not able to get into

the agreement a definition that the Canada Employment and Immigration Commission, medicare etc. are not to be considered as subsidies. That is to be worked out after the agreement is signed.

I can see that a manufacturer in Alabama paying US\$3 an hour to his 180 workers is very aggrieved that our system helps the workers more than his system does and that through tax money we are providing the kind of hospital and medicare facilities that his workers do not get. In this trade deal, therefore, his product, in a sense, faces a greater hurdle. It is natural for him to be concerned that way and to raise the question. So it is with regional development, maritime fishing, etc.. A host of things have already happened.

I see every aspect of our social network being questioned. I can see that since there is to be trade in services, if we subsidize day care as we intend to do, then a private day care company coming in from the United States will say, "Look, we are at a disadvantage if we do not get some of that money from the tax department because we are providing a service and we are not getting a share of the money." It would be fair from a certain point of view to say, if we have a trade deal that has no fence, then that private company, that very large private company from the US--

Mr. Haggerty: Nonprofit company.

Mr. Warne: Nonprofit, but private. It does not have to be nonprofit.

Mr. Haggerty: They say it is private but nonprofit.

Mr. Warne: You mean, they claim it is nonprofit?

Mr. Haggerty: Yes, that is right. Yes.

Mr. Warne: That is another story. If I put myself in the shoes of these entrepreneurs in the USA, I am going to say, "All these social networks are suspect and are subject to review," and it is going to be a long, hard battle for each one of them. Pay equity? That is going to cost us money. Do they wish to have to go through that sort of thing? If they see governments subsidizing pay equity, will they consider that an unfair advantage for an entrepreneurship in Canada?

Mr. Bulloch does represent some small business. It seems to me that the mindset of this agreement, though, is going to work against other small business. I think of my friends in the Heintzman Piano Company, which in 1980 was making a valiant effort, as a small company serving the Canadian market, to survive. Then, wham, because our federal interest rate was tied to the United States, that company went under. That was a direct cause of that company going under.

Some small businesses I think will need a co-operative sense of protection from the Canadian government to get through all the humps and hollows of the strange kind of economics that exist south of us. It is an economics that is not designed for people but for the institutions.

Mr. Neumann: Thank you. You were talking about the level playing field that should exist under this agreement between Canada and the US--

Mr. Warne: I was hoping we would say that metaphor was no longer useful.

Mr. Neumann: No longer useful?

Mr. Warne: In other words, they talk about a level playing field. The Americans wanted a level playing field and part of that is this subsidy. It tips the playing field.

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Mr. Neumann: Right. One aspect of developing a level playing field which I have not heard raised yet--perhaps you might have some thoughts on it--is the huge subsidy that American industries get indirectly through the defence contracts. Billions and billions of dollars are spent on defence in the United States, out of American tax dollars given to American industry by way of contracts. Would not the scientific breakthroughs that occur in the space industry and defence industry give American industries an edge over Canadian industries?

Mr. Warne: Yes.

Mr. Neumann: Maybe we could do a tradeoff here, if Reagan gives up the strategic defence initiative.

Mr. Warne: I understand Reisman attempted to get some government procurements in the defence armaments and was unsuccessful. I understand he really did try, but they would not give that up.

Mr. Neumann: My final question is, on the whole, what do you think Canada gains from this deal, if anything? You have come here fairly negative about it and you see some dangers for the future of social services and so on. Is there anything positive out of it that you can see?

Mr. Warne: As you see, we say at the beginning that we are in favour of good entrepreneurs. We do like the idea of trade where necessary, where it is beneficial. So there will be a certain aspect of this trade across the border which will, no doubt, benefit Canadians--there is no doubt about that--cheaper prices.

Along with that goes the fact that some of the quality may be lost. Even now, if I go to Stoney Creek and attempt to buy a peach of the old-fashioned kind which is ripened on the tree and for sale at the roadside, I do not get it. You think of the soft fruit industry and how much it has suffered in the past and how much more it will suffer; that is, we will have American food and we will be subject to American decisions about the quality of that food and whether in times of crisis we continue to get certain things. We will have benefits in cheaper prices, but we have given up some control of our own life. We will have benefits, I suppose, perhaps in cheaper used cars.

Mr. Neumann: I have to ask you one more question, given the fact that you are from Oshawa.

Mr. Warne: Whitby.

Mr. Neumann: The Oshawa-Newcastle area. I believe one of Canada's western premiers, Mr. Devine, poked some fun at Ontario, saying that perhaps we in Ontario are just being a bit selfish, that we have benefited from free trade in automobiles and look at the multibillion-dollar boom going on, such as new construction by General Motors in Oshawa. Since you are from that area, I cannot help asking, do you feel, as an Ontarian and as someone from the

Oshawa-Whitby area, that perhaps as a Canadian you are being a bit selfish here and not thinking of the western and eastern extremities of the country and what they might like?

Mr. Warne: I am conscious of the needs of the east and the west, having travelled there quite a bit. I hope a deal is worked out that will benefit them as well as Ontario, and especially Oshawa, since I am there.

Mr. Villeneuve: Why not?

Mr. Warne: I am not sure the blessing of Sam McLaughlin's foresight is entirely good. That is, Sam's father said to him: "Why are you going into these horseless vehicles anyway? The future is not there." If we judge by the turmoil that Sam's product has brought to this province, it is not all good. If Sam had said, "All right, Robert, I'll start making bicycles," I think Oshawa would have contributed much more to the benefit of Ontario. The car has decimated our A-1 crop land and so on.

You see the point I am making? Mr. Devine saw lotus-land down here, but it is not quite that. Oshawa has extremes of wealth and poverty, and the social planning council has been aware of this awful cutting edge of poverty in a place that is busy. It is only in the last two years that it has had this kind of employment. Before that, unemployment was high in Oshawa, higher than in some other parts of Ontario. But in the last two years the increase in auto sales has made it a very busy city, but the structure has not been able to keep up with the social needs of that community, nor has the structure of Whitby been able to serve the social needs.

It is a strange sort of feeling that if you work in Oshawa, you cannot live there; it is too expensive. If you work in Whitby you cannot live there; it is too expensive. Some of the executives from Toronto may be able to live there. A lot of this building is for executives getting out of Metro and living there. But the social needs of Oshawa, Whitby and Newcastle are greater now than they were three or four years ago.

The availability of housing is 0.01 per cent if you look at rental vacancies. If you look at the long list of families, single mothers and children, that really need housing desperately, it is an extreme situation. Even now, with our social network, we have extreme needs.

I would like to take Mr. Devine to see the waiting lists, to see the problem of the failure of governments in that part of the world to serve up the kind of structure and the kinds of housing that were really needed. The fact that wealth could certainly flourish in that area is true. You see all sorts of wealth in the area. I wish he had seen some other side and raised the question, "Is all American investment good?"

The other side of that, too, is that without sanctions, General Motors could easily do without Oshawa. Any one of its plants elsewhere could do what Oshawa is doing. It is a real question whether General Motors would stay if the crunch came.

Mr. Chairman: I think they would argue that they are putting an awful lot of money into Oshawa right now--billions of dollars.

Mr. Warne: Yes, \$3 billion. It is mainly to develop a high-tech robotic production centre. It is not likely it would sacrifice that but, mind you, this new \$3 billion produces very little in the way of employment. If you

look at all the American money producing employment, that does not produce much in the way of employment. It is good to have, but it is not solving our problem. The \$3 billion sounds like a lot of money but the robots cost a lot. To service them costs a lot, so we have the technology there.

Mr. Neumann: I hear what you are saying about the social problems in Oshawa and the area. Would that not sound awfully hollow to the unemployed people in Newfoundland or the poverty-stricken areas of northern Saskatchewan?

Mr. Chairman: Would you speak up, Mr. Neumann, please.

Mr. Neumann: We will take some of those problems; we would be glad to have them. Is that not what Mr. Devine was saying?

Mr. Warne: I would sympathize with them if they were analysing their problem directly and saying that this trade deal would solve the problem.

Mr. Neumann: You do not think it will.

Mr. Warne: No, I do not. I have read a stack of clippings indicating that farmers on the Prairies, the people producing leather goods in British Columbia, etc., certainly a whole host of people in the Maritimes, are raising questions about this deal. I really do not think it will help them.

Mr. Neumann: The point I am trying to get at is that we, as Ontarians, coming from a very wealthy province, have been accused of merely espousing self-interest in opposing free trade. Since Oshawa was centred out, I thought I would get the benefit of a response from you.

Mr. Warne: It is a hard name to live down, I know.

Mr. Chairman: I am going to interject something entirely different here for a minute. Mr. McClellan has pointed out to me that this morning I neglected to raise as an issue the discussion of the second contract, the economic paper that we have not finalized. I am saying that because, I hope, we can do that some time between now and the end of tomorrow. It might be more appropriate to do it some time today, if we can.

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Mr. McCague: Mr. Warne, I understand you are a true Canadian from your paper and you have a good understanding of our country. You said that if somebody offered you a million dollars, you would not want to go to the United States. Would you go?

Mr. Warne: I am going. Once the Americans somehow through their Congress said they would not directly support the Contras, I decided to take a trip to the Metropolitan Museum of Art; so I am compromising myself enough to go down and see the Metropolitan Museum of Art in New York. But for 15 years, on ideological grounds, I have avoided as much as possible contributing to a system which, through Vietnam, etc., has tried to use its dominance of the world in the way it has.

Mr. McCague: One of the witnesses we had here suggested that if there was free trade and the elimination of barriers to trade, the American companies that are here will be more content to stay here. What is your comment on that?

Mr. Warne: I think the managers, the middle management would, but I do not think that is the place where the decision would be made. I am sure from all my reading it is based on a rationalization. It is like water flowing through the breakup of the spring. It finds a way out, and that way out, according to this great ideology, is the bottom line--in black.

I cannot quite conceive that an American businessman who knows he can make more profit by closing out the Whitby plant and co-ordinating his production for all of North America in Chicago is not going to do it. He may hesitate because the people who work in Whitby enjoy it so much and it is a good environment to work in, so it may be delayed, but I do not see that this will happen.

Mr. McCague: You are on the social planning council. I live in Alliston. In my opinion, we were fortunate to have Honda locate there. In your opinion, we probably were not fortunate; I have been listening to what you said.

Mr. Warne: No, I would not necessarily say that.

Mr. McCague: With all the problems you have in Oshawa and Whitby, I am beginning to wonder. However, labour is going to be a real problem for them, very quickly.

Mr. Warne: Who is "them"?

Mr. McCague: Honda.

Mr. Warne: I understood that Honda was developing a new pattern of relationship with labour which has been admired from many points of view.

Mr. McCague: That is true, but it is just labour shortage. We hear about McDonald's, for instance, having stores where everybody is over 65 because they cannot get people. I am telling you that Honda is having difficulty at this time getting employees.

You talk about the fact, and Mr. Mackenzie, who is not here at the moment, and Mr. Morin-Strom do the same thing, that these plants leave Ontario. That is a hardship for the employees, and the sooner we get some kind of adjustment built into a corporate obligation the better, but you cannot stop them moving away. We have not been able to stop that; there has been movement back and forth for years. There are even plants shutting down in the United States and locating here and concentrating here, probably because of energy costs.

How far away, in a social planning sense, is the time when we will no longer have compulsory retirement at 65, but we will have a real honest-to-goodness shortage of manpower?

Mr. Warne: I would hope that is not a problem we have to face; that is, the thought that at 65 a person would feel great pressure to continue working. I would like to see the national problem of unemployment solved with this problem that you mentioned. There are some who could retrain and resettle. Certainly, with regional development, there is no reason Newfoundland cannot produce some of our cars. It is a strange kind of Canada we live in at the moment where Alliston is short of labour and most parts of Canada have this poverty of work.

Mr. McCague: There are a lot of strange phenomena. Maybe McDonald's cannot get employees because it does not pay enough money, but it says it has a real problem at this time. I dare say that if you go into the Eaton Centre or walk down Yonge Street, every third store at least will have a sign in the window either for full-time or part-time help. In the United States right now, it is even more prevalent. I guess your answer to that, as a social planning council, has to be they are not paying enough money.

Mr. Warne: I think that is scientifically true, too. Recent studies in Boston show that they are not paying enough money. If, across the board, you raised the minimum wage to \$8 in the United States and Canada, if North America raised the minimum wage to \$8, the costs would be minimal and the benefits would be many. When we are looking at the social welfare network, it depends so much on that minimum wage. The minimum wage is below the poverty level. A computer would have to take in all the figures of our social welfare. I hope the standing committee on social development of the Legislature or the government will soon have its report ready. We presented a brief to the committee on that sort of issue.

The whole network needs to be reviewed. One way would be to say that in a civilized continent a minimum wage which is below the poverty level is not a sensible ideal. If laws were passed so that everybody had to move to a new level, there would be some dislocation but there would be great benefit.

I think of small business people who could manage that. I think it would eliminate this sense of people not wanting to get trapped in a job which is below the poverty level.

Mr. McCague: I guess the point I wanted to make is that I am not as sure as you are that our social services in this country will be threatened by a free trade deal. I do not blame you at all for raising the issue and it probably is your issue. It is the issue for social planning councils. However, I am not convinced that we cannot maintain our own identity and keep our country much the same as it is and still proceed in the trade.

People raise all kinds of things. On the family farm, they say the family farm as a unit is not as strong in the United States as it is here, so that if we have free trade, their system is going to infiltrate ours. Those are points you can make, but then somebody can make the other point, and I guess with the same kind of assurance that one or the other is right. I might think I am right. I am sure you know you are right or you think you are right.

Mr. Warne: I would be happier to think that you are right if you had a signed document. You have the final agreement. You have looked at it. That signed document does not say what you are saying.

Mr. McCague: True, and you are never going to get one, are you?

Mr. Warne: Look at the vast resources, the continental energy policy. Sign that over in perpetuity and what do you get? You do not get an agreement that medicare is a national program which cannot be touched. You do not get it written down. You get an eight-year policy of review in which they sit down and review this. What we will do is review it piece by piece; then take one little piece at a time. It seems that we would not terminate the agreement because there is just that little bit to give away. Then you give a little bit more away here, but over the period of eight years, you give away a little here and there and there. This is what I foresee as the record until 1995. Then suddenly I wake up and realize it is all gone. I can terminate the

agreement, but it is so hard then to terminate and restore the network that was there before.

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Could I respond in other subtle ways in which this sort of thing can happen? I lived in Britain this summer. They have had the European Community for a long time. Living in rural areas of Britain, I found people were concerned about little things that were changing their pattern of life, such as milk delivery to the door. I would always remind them that we go out, get our plastic bag of milk and bring it back in the car, but they still have the cows. One day it is all put through the machine and it is delivered at the door the next day. They said that has to go. Why? The European Community does not think it is fair that Britain should continue to have that system when it does not have it.

This is one little, tiny price they are going to have to pay for being part of the Economic Community. Nobody thought of that at first, but it is a tiny little aspect of a quality of life which was endearing and enjoyable, and it is going to be gone. I envisage in the next eight years little bits of the kind of life that I have enjoyed for so long just going because the agreement says so.

Mr. McCague: I guess you are saying that Maggie Thatcher should have done what she did without the European Community.

Mr. Warne: You mentioned the referendum. It was a very close vote, and I think maybe if they had a vote now they would wonder whether they would go into it. There are certainly benefits, as far as material wealth goes.

Mr. McCague: It has helped them a lot, I think.

Mr. Warne: No. I have seen deterioration in Britain over the last period of 15 years. Every two years when I have gone back to Britain, I would see further deterioration, great extremes of wealth and poverty. You can see it. Every two years there are riots. Nowhere in Canada have we yet had that sort of social upheaval that has come. I see deterioration in that great nation which once I admired so much.

Mr. Morin-Strom: First, I think we should correct the record. Mr. Neumann, earlier in this round of questioning, suggested that Mr. Bulloch's presentation yesterday showed that--I think the words were "a vast majority of his membership supported the free trade agreement." I think we should look at what his statistics showed yesterday.

I got the researcher to get out the data--the latest data after the agreement--and it shows Canada-wide 38.1 per cent were positive. Not only was it not a vast majority, it was not even a majority; 38.1 per cent were positive--admittedly, much larger than the negative, 6.5 per cent--but the largest figures were among the undecided, with 30.7 per cent, and the no impact, 24.8 per cent. In fact, a majority of his members said either they were undecided or there was no impact. From his own data, we have less than 40 per cent of the small business community who were positive about this agreement. We should not give him more credit than he is due.

Mr. Neumann: Thank you for clarifying that.

Mr. Chairman: He was comparing the 38 with the six.

Mr. Neumann: That is the impression he left with us.

Mr. Morin-Strom: I think he tried to leave that impression.

Mr. Chairman: When he pounded his desk in front of you.

Mr. Morin-Strom: It is also interesting that in his chart he put the no impact on top of the positive to show the total percentages up between 60 and 70, but that included a very large number in the no impact percentage.

Mr. Chairman: I think your figures were pre-agreement.

Mr. Morin-Strom: No, those are after the agreement. Before the agreement, it was 34.1 per cent positive and 12.8 per cent negative, and a total of over 53 per cent either no impact or undecided.

Mr. Neumann: Could I just interject here for a moment, Mr. Morin-Strom, just on that same point?

Mr. Morin-Strom: Yes.

Mr. Neumann: I know we are not here interpreting what Mr. Bulloch said, and I was not, by means of asking the question, supporting him by any stretch of the imagination, but I believe one has to be careful about how those questions were worded in the survey he did. He did not ask his members whether they supported the current free trade deal or not. He asked them whether they thought their businesses would be positively or negatively impacted, and that was the result that was given to him. As Mitchell Sharp pointed out, you can, as a Canadian, feel there might be a positive economic impact from the deal and yet be strongly opposed to it for other reasons.

Mr. Morin-Strom: I feel strongly we should deal with this point today.

Mr. Chairman: Yes, we will get to a point.

Mr. Morin-Strom: I have a second comment relating to Mr. McCague's point on poor Alliston not having enough workers. I do not think we are at the point of having real labour shortages in the province at the unemployment rates we are still running here. I think social planning councils would say the reverse is the case. We still have far too high unemployment levels and we could be doing much to bring those unemployment levels down.

Mr. Warne: Yes.

Mr. Morin-Strom: That is a far more serious problem, is it not?

Mr. Warne: That is right.

Mr. Morin-Strom: I have an article that I read yesterday in last week's Financial Post. Its title is "Swedish Industry Hard Hit By Acute Shortage of Labour." This is probably more indicative of a situation where you have got labour shortages. It says, "Sweden will either have to lower its industrial ambitions or open the door to more immigrant workers from the European Community if it is to alleviate the problems caused by an acute shortage of labour." The warning comes from the Federation of Swedish Industries, the equivalent of the Swedish Chamber of Commerce.

"With unemployment now below two per cent, companies are finding it

difficult to recruit semi-skilled and skilled manual workers for the factories as well as electrical technicians and civil engineers. When unemployment is so low it is difficult for industrial companies to find labour inside Sweden," says the federation's representative.

I think this is probably more indicative of a society which has, essentially, a full-employment policy and perhaps is facing some problems of a shortage of labour. It goes on to say, "The problem looming for Swedish industry is that industrially trained workers are in short supply, and from that perspective it is natural to turn to the European Community, where there are about 16 million unemployed people, some of them with the right education."

It is interesting because the European Community is what some of the strong advocates say is what we need in terms of a model of a much larger trading bloc to be a portion of. In fact, Sweden, which is not a portion of that large trading bloc in Europe, has an unemployment rate below two per cent while the European Community has 16 million unemployed people. Of course, I think probably all the countries in the European Community have higher unemployment rates than Sweden.

Rather than tying ourselves to the American trading market and economic system, do you think we should be going to other alternatives and in other directions with our economy?

Mr. Warne: I think I need a pause of about half a year to talk to Suzuki and hear him say again, "Canada is everything we need." It is a fortunate nation in a way, because if all trading nations in the world fell off the planet, we still have enough for all our needs. In a strange sort of way, we do not need trade at all.

Then I say again I am glad to share with the world our ability as Canadians and I want to share it. The old-fashioned General Agreement on Tariffs and Trade moves very slowly, but I think GATT over the years has been able to increase beneficial world trade. I think we should put more of our eggs in the GATT basket and try to diminish some of our trade with the United States, especially service trade. Therefore, I see this as the great move of the future.

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I remember those few days before October 3, when it looked as though the whole deal was going to fall through. Even Donald Macdonald had come one night to say, "Well, I guess it looks as though it is done." Then he began to report to the CBC reporter a little vision he had of how Canada could survive if we did not have the free trade deal. Just for a moment, for about three days, we had a sense of Canada saying: "We're going to have to do it on our own but, by gosh, we can do it. We have energies, we have resources and we can certainly do it on our own."

I wish I had been able to extend those three days, sort of three days of bliss, when we finally said: "Look, we don't have to be tied into this deal with the giant to the south of us. We have many, many other opportunities, including some cleverly negotiated deals with our neighbour to the south." The energies will come, I am sure. If we once get this free trade deal junked, I am sure we, as Canadians, will show we have the energies to share in the world what should be shared, to protect what should be protected for our future generations.

Mr. Chairman: Thank you very much. I think that is a very poignant conclusion to your presentation. We appreciate your coming in and assisting us. It is a major concern, of course, and the committee is pondering it. Obviously, we have very different points of view on the committee, but I think you presented your view very well.

Mr. Warne: I thank you for the opportunity and for the hearing.

Mr. Chairman: We have Brian Nash with us now. He is the chairman of the Ontario Grape Growers' Marketing Board. Mr. Nash has a brief that he wishes to distribute. Would you like a minute or so to get settled, Mr. Nash?

Mr. Nash: I am just waiting for my two colleagues to join me here.

Mr. Chairman: All right. There is a brief that is being distributed. Apparently we are going to have to prepare some more copies of it. Your two colleagues are here now, very good. We appreciate your coming and being with us today.

I had the opportunity to meet with Mr. Nash a week or so ago when Mr. Pelissero had a meeting down in Lincoln.

Mr. Villeneuve: Where is that?

Mr. Pelissero: God's country.

Mr. Chairman: I have some feeling, I think, of what you are going to say, but perhaps you could lead us through your brief now. Perhaps you could introduce Mr. Rainforth and Mr. Smith.

ONTARIO GRAPE GROWERS' MARKETING BOARD

Mr. Nash: Mr. Rainforth is the secretary of our marketing board and Art Smith is the vice-chairman of the board.

I do not expect to be in the same form that I was in at the meeting you attended in God's country a couple of weeks ago. I have gathered my thoughts and have had a chance to calm down just a little bit.

My apologies. I believe we were slated to appear here in February. We also had been invited by the provincial government to be part of the contingent that went to Brussels to address the GATT complaint, and my thoughts were wholly on that. To be absolutely honest, and there is no sense in my beating around the bush, I forgot. I am sorry.

Mr. Chairman: We appreciate that would be of major concern to you at that time, obviously.

Mr. Nash: Three years ago, I started a campaign calling for fairness in the international trading of agricultural commodities. The only result I can lay claim to is that maybe the public's awareness has been raised half a notch.

Three years ago, I did not foresee the sad situation that our industry would find itself in today. Under the free trade pact with the United States, we face being decimated within 367 days, and that began the first day of this year. Today, our life expectancy may be less than 300 days.

Behind our backs, the army of the GATT is bombarding Canada and Canada's provinces with demands that we hand over our life's savings.

Of these two threats, the GATT is the more deadly weapon. Just the same, either one, if it carries in its existing form, means an end to our industry and the jobs that we provide. The only difference is that the GATT works a little bit quicker.

Free trade handed our grape and wine industry shabby treatment, and I understand that even Ottawa is now admitting publicly that we got a miserable deal. In our industry, free trade is a downhill slide with no hope of recovery. Any benefits Ontario and the other provinces provide for wine processed wholly in Canada are to be wiped out in seven years. But we must remember this: The deal is front-end-loaded, because each of the first two years sees a drop of 25 per cent.

We are in a long-term business. Changing varieties in a vineyard takes seven years. Wineries have to plan their production and their marketing by buying their grape supplies at least one year ahead.

If free trade is forced through, and is forced on Ontario, our wineries will buy as little as possible this fall, and much less, maybe nothing, the following year.

What is at issue is not quality. The grapes we are providing for our wineries are so good that they have launched Ontario into the circle of respect among the world's wine commentators. Our problem is the slope of the playing field.

Free trade gives the United States access to a network of retail outlets across Canada which will buy their wines in massive quantities and pay in advance. This is no-risk, one-stop selling in each province. There is no reciprocity for our wines.

Let me tell you the type of competition our grape growers are being told to match.

We pay double the hourly rate for help that is prevailing in California, and I would not support any move to lower our minimum rate, because we are a more caring society, with more and better social programs, so consequently our taxes are higher.

We have tough standards on environmental protection. In the United States, chemicals are in daily use which cut in two the amount of tractor time needed to maintain top-class vineyards.

Fuel and fertilizers are 40 per cent cheaper for US farmers.

Around two dozen states protect their domestic wines, and under free trade these barriers will stay in place.

Farm support payments in the United States are running double the level of the support given in Canada.

I give these points simply to show that we have few opportunities, if any, to survive. Our grape industry is very efficient. Our wineries got out of the grape growing business years ago because they could not match our standards.

These are some of the problems. Now let us take a look at the impacts.

Our 24,000 acres of vineyards are the lifeblood of the Niagara tender fruit lands. If we lose the vineyards, these tender fruit lands lose their significance, even though they are unique in Canada. The alternative uses are for parking lots, shopping plazas and subdivisions.

Year after year, grape growers have been generating upwards of 16,000 full-time and seasonal jobs. There will be close to total fallout. Very little of the industry will survive.

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What are the advantages? I cannot find any. Consumers are being told about lower prices under free trade. Some goods may be cheaper, but not wines. This point is greatly misunderstood. Equalizing the treatment of wines in Ontario and across Canada will not change the markup on American wines. Ontario's markup system for foreign wines is comparable to the treatment across the country, even though only Ontario and British Columbia have grape-growing industries. The only move open for the provinces would be to raise the taxes and markups on Ontario and other Canadian wines.

We have no benefit for the consumers; only penalties for those who prefer to select the fine wines that are being produced in this province.

What land developers failed to do, free trade may accomplish in 367 days starting from January 1 this year. Why could our industry have been given away without anything being won in return? To me this seems to be the mystery of the century.

I see that Manitoba and New Brunswick have rejected the current free trade terms. Manitoba also seems to have rejected its government. The Ontario government has made its position very clearly understood. The Premier of Quebec has said publicly that his province will not buy American wines. The heads of the governments for more than two thirds of Canadians have not swallowed the wine provision of free trade.

This is another point Canadians should here about. Premier Peterson has shown that Ontario wants fairness. In all of these discussions, negotiations and public juggling acts, Ottawa's free trade team and quarterback Simon Reisman showed no interest in the current position.

Canada is already the largest export market for American wines. Ontario alone takes in each year more grapes from California than our growers produce in Niagara and southwestern Ontario. We are their biggest export market by a country mile. The Americans have a more generous share of our grape and wine market than they would tolerate if the position were reversed.

What about the issue of the GATT? While Canadian and American negotiators were meeting on free trade, the United States was doing an end run, in company with the European Community, against Canada's wine policies. To me it sounds like double-dealing. To my knowledge, this province has never made a commitment to eliminate the difference in markups between Ontario and Canadian and foreign wines.

EC wines have the lion's share of the table wine market in Canada, and they beat out the Americans when competing under exactly the same conditions. After free trade, the Europeans will continue to beat out the Americans for

the wine market here in Ontario and in Canada. The United States should have recognized this point.

Both free trade and the GATT threats will destroy our industry. Both will take away any expectations that Ontario wineries will continue as substantial buyers of Ontario-grown grapes. Our wineries will fight for survival by importing or shopping around for distress prices in grapes, and believe me, there are lots of them.

There can be no ongoing investment and no progress for a Canadian wine industry under free trade or the conditions other nations are trying to force on us under the GATT.

I was stunned when I heard that a panel had found Canada guilty of violating the GATT. This is lunacy. The EC is the world's greatest specialist in transgressions against the GATT. They pump billions of dollars into export subsidies as a day-in, day-out way of doing business. Their purpose is to disrupt world markets so they can take over. Each bottle of French wine entering Canada comes with a \$2 subsidy courtesy of the taxpayers of the EC.

Ottawa has told our marketing board year after year that it would not be allowed to take action for countervail. Now I understand they are prepared to support a protest, but it is late in the game.

Ontario took a gutsy stand in the negotiations with the GATT representatives in Brussels, and I want to thank Premier Peterson and his colleagues for seeing that I was invited to go along with the Ontario team. It was a very strong team. I was very impressed by the work accomplished by the Ontario team. They made their position known forcefully and repeatedly, but the facts exposing the double standards being exploited were not admitted. Other delegates laughed that the EC, of all groups, could get away with throwing the GATT at Canada. I guess they are still laughing.

I have told many audiences that Ontario has taken the ethical position both in free trade and in reaction to the GATT complaint. As leader of the 900 grower members of the Ontario Grape Growers' Marketing Board, I want you all to know that this toughness and honesty has been seen and welcomed and fully appreciated. We want to continue to work with you, the province, for the survival of our industry and for the good of the economy of this province.

Growers have invested millions and millions of dollars in upgrading vineyards, bringing in European varieties of grapes for top-class table wines. This they have done at their own risk, in concert with their bankers. In 1987, we had record harvests of the highest-quality table wine grapes in all of these specialty varieties.

The dumping of wine has severely damaged our markets. Our sales to wineries averaged 37,000 tons over the last three years. In the period of 1980 to 1984, the average was 46,000 tons. This 20 per cent reduction brought in the surplus programs, which have helped our industry get by during tough years.

Growers cannot survive under surplus, because the income is simply too low. Unhappily, we cannot exist without these programs until fairness is put back into international trading.

We find that the grapes in surplus supply are mainly the varieties introduced for the high-quality table wines. Our traditional grapes, the Concords and the Niagaras, have no marketing problems now, but under free trade they would be under a lot of stress.

As an industry, we need operating loans to tide us over the year until we get our one payday after the harvest. Good land in the tender fruit belt fetches \$10,000 an acre, so only speciality crops giving a high return are viable. There are no other crops to turn to. The market just does not exist.

The value of the grape acreage is going to tumble, from upwards of \$10,000 an acre to a few hundred dollars an acre. The equity loss for growers will be immense, and we are seeing this happen as I sit here and talk to you.

We have been caught up in an international trading war in an international grand design of doubtful merit. The grand design, the free trade end, was not thought through. It was not studied by anyone who knows the grape and wine business before the minds of Ottawa were cemented and closed to any outside input.

The GATT business is a scam on an international scale. We see fair trade as the only choice for sanity in international trading. Ontario has acted to demonstrate it stands for fairness, and this level of clear thinking is essential.

The opportunity for my colleagues and myself to meet with you is very important to our 900 grower members. Thank you.

Mr. Chairman: Thank you very much.

Mr. Neumann: First of all, I would like to thank you for your presentation and the obvious sincerity and feeling in your voice in making the presentation. I would as well like to congratulate the grape growers on introducing the improved varieties. I know Ontario wine, over the last number of years, has improved steadily.

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I was listening to your statistics about the level of export currently into Ontario of California wines. It is quite astounding what you have mentioned to us. Were these statistics about California grapes sold in Canada and Ontario presently used by Simon Reisman during the negotiations? If so, how could the US negotiators argue on fairness in this area? Was this sector sacrificed because of President Reagan's personal interest in the California industry?

Mr. Nash: To answer your first question, I do not know if Mr. Reisman used those figures in his negotiations. We have used them many times with the United States representatives, going back a couple of years. Those facts were made available to governments, to the negotiating team, as best we had our input.

As to whether the grape industry was a sacrificial lamb, I would have to assume it was. In the context of Canada, the two major areas producing grapes, Ontario and British Columbia, and to a lesser extent Nova Scotia, are very small.

I also believe we were first and foremost in the bargaining sessions of free trade. I think that came about when the President of the United States came on national television one night. He did not discuss autos, textiles or lumber. He made a statement to the effect that he was looking forward to the day when fine American wines were as readily available in the households of

Canada as Molson's beer was available in the United States, or something very close to that. Do not quote me on that as coming from him, but it was along that general line. I also know where he originally comes from and whom he represents.

I believe sincerely that we were the bargaining chip. In every set of negotiations, I believe there are a few throwaways. In the eyes of probably our negotiators, the grape industry and the wine industry in Canada seemed to be a throwaway, a bargaining chip, a sacrificial lamb.

Mr. Neumann: When you say we did not get anything in return for this chip, by "we" did you mean the grape growers?

Mr. Nash: The grape and wine industry.

Mr. Neumann: Or did you mean Canada as a whole?

Mr. Nash: The grape and wine industry in Canada.

Mr. Neumann: Your presentation has focused in, obviously, on the industry you represent. Do you believe that we as Canadians got anything in the deal in return for this chip?

Mr. Nash: I believe there are some winners. I do not have enough inside information to know whether or not down the road, as our currency fluctuates back and forth between the two countries, we will have any major winners. I believe thoroughly that in agriculture we are looking at the present and not at the future. I believe the future is going to show us a more closed-up version of our monetary funds as they refer to each other.

We have been looking at a discounted dollar for a long period of time and we have taken it for granted that is how we operate. We have seen in the past year a substantial closing of the gap that was there and I think we are going to continue to see that closing of the gap. That is when the whole free trade deal, as it reflects on agriculture, and more specifically the grape and wine industry, is really going to come home to roost, when we find that the closing is happening and is going to continue to happen.

Mr. Neumann: Is it your position that we as Canadians should take more care in negotiating free trade arrangements to recognize the long-term resource that we have in terms of the tender fruit areas? Here I am thinking that Canada is a northern country with a northern climate. If we talk about level playing fields, we do not have level hours of sunshine in California and the Niagara Peninsula, but relatively speaking in Canada, those are sensitive areas. The Okanagan Valley, the Niagara Peninsula and the Annapolis Valley are the three areas in Canada. Should we be treating those as a national resource and making some exceptions? Is this what you are saying?

Mr. Nash: I would have assumed that we would have handled it that way. Not only is it a national resource but it is also a nonrenewable resource. We do have and have proven that we have those three areas that can, to some extent, grow tender fruit. I cannot believe for one minute that we should as a country, as a nation, give away our ability to produce these crops.

If we do nothing else, at least we keep our importers honest by producing this type of product. Do we as a country want to be dependent on a foreign country for our fruit supply? I would think not, but it appears that this was overlooked in the negotiations.

Mr. Neumann: I would agree with you. My riding is Brantford and it is on the fringe of the tobacco belt. I am familiar with all the studies that have been done to find alternative crops for those lands. Of course, tobacco is a high-return crop in terms of dollars per acre and it is extremely difficult to find any crop to replace it at anything near the value. I think grapes would be similar.

I think you are quite right that the only alternative, once the grape industry goes, is to allow those lands to be developed in some way. We will lose that agricultural land, and one cannot compare it to the other agricultural land in Canada, it is unique in the country. I am not asking a question. I sympathize and identify with the position you have put forward.

Mr. Villeneuve: Thank you very much for your presentation. I think we all understand the dilemma that is facing you to some degree under both the free trade agreement and also the GATT decision. I think the GATT decision was one that came down at a time when everything got lumped up and blamed on free trade. However, GATT is very much a problem in this area.

We know you have a superior type of grape being grown in the Niagara Peninsula as opposed to the grape and wine area in northern New York state and the area immediately south of you. I understand they are competing. I am sure you have looked at those grape growing, wine-producing areas in the northern area of the United States. Could you comment on how they manage to survive and possibly what we could learn? We do know we have superior grapes up here.

Mr. Nash: This brings home to roost one of the thoughts that I cannot face, and that is that we will become the same type of producer and grower as is happening in New York state. I suggest that it might be well worth while for all of us to take a drive into New York on a Sunday morning and spend the day looking at some of the vineyards and some of their operations.

They have been devastated by southern California. There are very, very few full-time grape growers now in New York state. They have been forced to seek employment elsewhere. They are working as real estate salesmen and whatever else they can and trying to look after their grape lands in their spare time.

There seems to be an outlook, an expanded market for white grape juice throughout the United States. The major buyer of white grapes for juice is now offering incentives to New York growers to plant that variety that is in demand for white juice. The majority of growers have turned down that request because they do not have the finances available at this point to do that. I am hoping against hope that we do not turn into the same kind of scenario that we see across the river from us, but I do not see any alternative under the agreement that has been signed at this point. Our growers are resourceful people. They are going to try to eke out a living, however possible.

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We all drive this Queen Elizabeth Way corridor from Toronto to Hamilton. We see the light industry, the building between Hamilton and Toronto. I assume that, given the scenario we operate under that was signed by our federal government, the free trade agreement, we would see the same thing between Grimsby and Niagara Falls because of the growers' lack of ability to produce an income from those lands.

I wonder whether the aesthetic value is going to be there for the people from here, from Toronto, who drive to see the falls and also to take in the tender fruit areas, the peach, cherry and plum orchards and the grape vineyards. That is combined with their excursion from Toronto to Niagara Falls. It becomes part of their day, whether it is in the spring to see the blossoms, in the summer to buy fruit or in the fall to see grapes being harvested and this sort of thing.

It will be a changed area. We will survive as growers, some of us, but it will be a much smaller, downscaled industry.

Mr. Villeneuve: Can you tell me when, in your opinion, the devastation of the grape-growing areas of upper New York state and those areas in the north similar to our climate began. When did that downfall or that turnaround begin occurring?

Mr. Nash: It began probably 15 years ago in volume. We have a series of meetings on an annual basis with our American counterparts around the Great Lakes. The California industry has been represented at these meetings. We are finding it hard now to attract people to these meetings from the Great Lakes states. They have no long-term future. They do not even come to the meetings any more. The people who come are the same people we saw 10 years ago. There is not a younger generation coming into this. We have become very close friends because they do not change.

They are the same people coming back year after year. I have attended these meetings for a period of time as I have moved along in the marketing board. Maybe I am getting a little long in the tooth too, but we do not see people, who are young, like Art Smith, coming out of the Great Lakes states. There are people my age and older. There is not any renewal of the grower community.

Mr. Villeneuve: It has been stated, I believe, that the area in the states of which you speak did not upgrade and take the newer French-type varieties and catch on to them as quickly as we did. Therefore, we have a leg up on those areas because of a superior quality product, have we not? We do have a superior quality end product, which is wine. Quite obviously, you feel our product will not meet the requirements or the standards of the American consumer once this deal is in place.

Mr. Nash: We can compete very favourably with the growers around the Great Lakes. We are light years ahead of them in our conversion to the different types of grapes, but we have grown as growers what the public wanted.

Forty years ago, the public wanted high-alcohol wine and we grew the types of grapes that made those, the ports and the sherries. Then the public demanded something different. We are growing those and we are growing them in substantial quantities, in quantities that are greater than the consumption of the end product. It is shown in surplus figures.

Once again, it is not New York, it is not Pennsylvania and it is not the perception of our product by the consumer, but the Americans are a protectionist group of people. We are told that we will have access to 250 million people--I do not know--and 70 or 80 per cent of those are within a three-hour or four-hour drive from our borders across Canada. That may be very true, except that we forget one thing--the protectionism of the Americans.

We have just seen two of our most prestigious cottage winery owners spend 10 days circling the Great Lakes trying to approach New York, Pennsylvania, Ohio, Michigan and Illinois. They spent 10 days, two of them, selling product. They did not sell one bottle of wine--not one. They came back empty-handed. That is our opportunity in the northern United States.

We export some wine to the US. We export some wine to Florida. It is consumed by the snowbirds who go down.

Mr. Haggerty: A lot of Canadians are down there, though.

Mr. Nash: That is my answer. We export some wines into the Midwest, a very small amount.

One of our major wineries had created a little bit of a niche in the western states and it was exporting a product into the northwestern US. They were very successful. It was a different product. Pressures were brought to bear by some other distributors from southern California, and those products were forcefully removed from the shelves. That was one of the major reasons for the downfall of one of our major wineries in Ontario and across Canada. I am speaking of Jordan and Ste.-Michelle Cellars. They had invested literally millions of dollars in this market and they were told in no uncertain terms, "Your product either comes off the shelf or a major producer in the US will take its product off." We know what happened.

Mr. Villeneuve: Your industry has quite obviously been hit by a double whammy, the free trade agreement and the General Agreement on Tariffs and Trade decision. Last week, Monte Kwinter said something to the effect that we cannot have it both ways as signatories to the GATT and as participants in a free trade agreement. First of all, could you comment on which, in your opinion, was the worst? Was it the FTA or the GATT decision? Second, how did you react to Mr. Kwinter's statement that you cannot have it both ways?

Mr. Nash: Can I answer your last question first? We do not want it both ways. I would like to have it just one way. The GATT, I believe, was brought about by the free trade. We in Canada signed a deal with the US, and wine was part of it. The Europeans saw a wine deal signed by Canada and the US that they were not part of. That is when we heard about the GATT. They had this tool and it had been floating around there for quite a while, this "discriminatory markup system" that Canada has on alcoholic beverages.

We go back and they cite the letter of intent. You have all probably heard about it or seen it. There is a letter of intent. To the best of my knowledge, I have never seen where Ontario has signed this letter of intent. Never.

The letter of intent states emphatically that in 1989 prices of distilled spirits will equalize, markups will equalize. It also states emphatically that we will not widen the markup spread on wines, and we have not done that. We have lived up to the letter of intent. We have not increased the spread of markup between foreign and domestic wine, but it is being turned around and used against us. The whole GATT thing is based on this letter of intent that nobody signed. I cannot believe it. It is there and we are being forced to accept that. It could have been photocopied in anybody's office. It was not signed.

I have spoken with the people who were involved when this letter of intent was drafted. Of those three people, one was in politics. He was the Deputy Premier of Ontario at the time, Robert Welch. He never signed the letter of intent. The chairman of the Ontario Grape Growers' Marketing Board never signed the letter of intent. The president of the Wine Council of Ontario never signed the letter of intent. Why is it so almighty now? I cannot understand it.

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Mr. Villeneuve: Are we being subjected, through GATT, to which we are a signatory, to a kangaroo-type court? How do we resist it? You have apparently been to some of the negotiations that occurred. What can we do to strengthen our hand here, because I fear GATT much more than I do the FTA?

Mr. Nash: The Americans are going to get the best of both worlds because they are signatories to GATT, so if a deal is structured through GATT that is better on wine than the FTA, they will get advantage of that.

Mr. Villeneuve: How can that be, though? Does not the same set of rules apply to them as to us or anyone else?

Mr. Nash: To the Americans?

Mr. Villeneuve: Yes.

Mr. Nash: The Americans are part of GATT.

Mr. Villeneuve: As we are.

Mr. Nash: As we are. The complaint has been launched through GATT by the EC. The ruling, when it comes down from GATT, will give all the signatories of GATT equal treatment by being signatories to GATT. That is the mechanism it is channelled by. The complaint was laid by the European Community, but the Americans, being a signatory to GATT, will get benefit of the same deal the Europeans get. The Americans have done an end run on this. They cannot lose. They have the FTA, if it goes through. If the GATT ruling is better, they will take it; if it is not better, they will take the FTA.

Mr. Chairman: Just as a point of information, when the members of the committee go to Washington, I hope you will have a chance to meet with Hal Lucius, who was the American consul to Toronto from 1985 through 1987. I had a coffee with him when I was there in January. He told me that when he was here, at least a year ago, if not longer, he made inquiries--I should say he likes the lifestyle of upstate New York. It is a slower lifestyle perhaps than we have. He was painting an idyllic picture of the wineries in upstate New York not dissimilar to some of the comments from some of the witnesses we have had this afternoon about our lifestyle as opposed to that of Americans generally. He was painting a picture of the wineries there becoming a cottage industry where you go there on a Sunday afternoon to buy a case of wine. But you do not seriously market the wine. I take it that is the same situation you are painting.

It is interesting that he had made inquiries of our Ministry of Consumer and Commercial Relations as to whether or not somewhere down the road we might have a similar industry. Another factor they presented was that under our laws you could not go to a winery on a Sunday afternoon to purchase an alcoholic beverage and that there would be a great deal of resistance to that in this

country. So in fact, if worst came to worst, we might even have a disadvantage with the Americans. I just throw that out. I know it raises all kinds of other issues, but I thought I would anyway.

Mr. Morin-Strom: Mr. Nash, you are quite critical here of the GATT business. You say it is a scam on an international scale. That view of GATT is quite different from what we have heard from a lot of other people. I wonder if you could elaborate on what you see as the fundamental problem with GATT. I presume it is something in the process.

Mr. Nash: The fundamental problem with the negotiations in Brussels, which were channelled through the GATT by the EC, to put it bluntly, is subsidies. That they--more specifically, France--have increased their wines, from 1981 to 1984, from six million gallons to 16 million gallons leads me to believe that we do not have discriminatory markups here when we have seen those horrendous increases. We also see horrendous subsidies in the EC and we are seeing them in a smaller amount in the US.

We are not just seeing it in wine. We are seeing it in other agricultural products. There is a subsidy war now between the Europeans and the US in grain and we are seeing the same thing in wine, a \$3.8-billion subsidy in 1987 by the EC for wine. My God, that is a horrendous amount of money.

Last year they distilled one and a half times the total North American production. They took that out of wine. They burn it in buses or cars or make it into vodka, I do not know what they do with it after they distill it, but that is taken out of wine--one and a half times the total North American production. And we talk about California as a giant, and Washington. They are included in this. They laughed. We had a reception at the residence of the Canadian ambassador to the EC and the Europeans were there also.

Mr. Haggerty: Did he have Ontario wines?

Mr. Nash: That is the next part of my statement.

We discussed, one on one, the problems. They laughed at me. "You guys are going about it the wrong way. Subsidize." We could not discuss their subsidies, that was not on the table, but, by God, it is coming up and you are all aware we are not about to roll over and die for them.

Canada, and probably rightfully so, is trying to get out of this subsidy war but, by the same token, our competition is going exactly the opposite way. We have missed the parallel point. We have no hope of existence unless somehow we convince the Americans and Europeans to get out of subsidies or we go the other way too. We have to be different but we have to be parallel somehow for an existence. If we are going to give this industry away, we are not going to bring it back.

On your question of whether we got Canadian wine at the ambassador's residence, I was there for two and a half hours. Finally, at the last half hour, I did get a glass of Ontario wine. I had asked for Canadian; I got a glass of Ontario wine. What I guess I should have done, and I missed it there, is that I should have offered it to the Europeans. It had been around for so long and it had oxidized so badly that it was awful, and if we had served it to the European people over there, they probably would have said, "Hell, if this is the only competition we've got, forget it."

Mr. Haggerty: "We're not going to worry about it."

Mr. Nash: It was totally awful, but we did get a glass of Canadian wine.

Mr. Morin-Strom: You are talking about their subsidies. Can we do anything about that? Can we apply antidumping or countervailing duty actions?

Mr. Nash: Believe me, you are going to hear about that. Yes. We are laying a suit under the Customs Tariff Act against the EC, directed at its subsidies, and it is going to happen very shortly. I think most of you are aware that it is in the process.

Once again, now we have to channel that through External Affairs and through Treasury at the federal level, and I guess we are going to have to see whether or not we, as a country, have some backbone and are willing to pursue this thing. We feel we have more than legitimate grounds to issue this and, in answer to your question, yes, we are going to do it. We can carry it only so far as an industry, though.

Mr. Morin-Strom: Can you get the evidence to ensure that a countervailing duty, I presume it is, is imposed which would be as large as the current advantage you are holding in markup? Are their subsidies comparable to the amounts of markup advantage that you get from Ontario right now?

Mr. Nash: I feel that if we, as a country, pursue this suit and we stand up and fight, under the rules that we have in this country, the problems that we can document, yes, we will get or should get an amount that is very similar to the markup, taking away the advantages that they get that we do not get for that increased markup.

1650

They do get some storage and some payment schedules. If you want me to get into this, I will, but it will go on and on. They get storage. They get payment facilities. They get distribution that is justifiable, that the Europeans and the US get and that any other country, like South America, gets and that the wines listed in the liquor control board stores do get, that we do not get as a producing province, and that is a justifiable amount under the markup structure. We will get enough that will--and it is not going to happen immediately, because there is going to be a five-year averaging program that fits in here too. There is an increase in the tariff right away.

Then you also charge them. They get 80 per cent--

Mr. Morin-Strom: If you win your case.

Mr. Nash: If we win the case, yes. I am assuming that we will. I took that from the question you asked.

We then get a quota type of implementation put on the European products that is equal to 80 per cent of their five-year amount--the amount they sell in here in five years, or the past five years, and then the next year you drop one year and add another one. So, over a period of time, it will equalize completely. Initially, right off the bat, no. Does that answer your question?

Mr. Morin-Strom: So the initial duty that might be applied would not

make up the full difference. Is that what you are saying? Or are you talking quantities that would not make it up?

Mr. Nash: It will be part of both. Are you familiar with this complaint that is going to go through from us?

Mr. Chairman: No. As a committee, we are not.

Mr. Nash: OK. I do not have it here. It is in draft form and is being put together. We, as an industry--the Canadian Wine Institute, the wine companies of Ontario, the other provinces, the grape growers--are putting through a complaint against the subsidies of the European Community. We hope that will be presented about a week before March 22 when the panel at the GATT has to make a decision.

Under the complaint that the Europeans lodged against us, we could not address the subsidies. That was not part of the complaint. It was strictly the "discriminatory markups that Canada has on alcohol." We had to come up with something else. This is very similar to what I believe the American omnibus trade bill would be. It is a broad range, and it does not cover just wine. It is not a countervail. It is a charge under the Customs and Excise Offshore Application Act. It has never been used in Canada before.

Mr. Haggerty: Have you got a commitment from the federal government that it is going to carry this through, though? That is your next tough step, is it not; whether they are going to pick the ball up and go rolling with it?

Mr. Nash: The federal government appears at this time to be wholly supportive and committed to carrying this. What happens a week from now or 10 days from now, I cannot answer because I am not going to be in a position to make those statements, but at this time it appears that we have support from the federal government.

Mr. Chairman: Mr. Villeneuve has a very quick supplementary.

Mr. Villeneuve: I was elected to this great racket here in 1983 and started to use Air Canada and Via Rail extensively, and I complained immediately because any time you ordered wine on those two carriers at that time it was not Ontario wine.

I am amazed to this day how many restaurants in this city do not serve Ontario wine, and I do not know whose responsibility it is. It is a crying shame if Canada House, wherever, does not have Canadian wine or Ontario wine, but we have to do a little work at home here. I am amazed many times at the attitude from whomever is serving the wine that Ontario wine is garbage. That is literally what they say by the look on their face. We have French-type wines. I come from eastern Ontario where there are no grapes for wine grown, but I feel we have to do some work locally here with your industry. We have a terrific product that people do not realize we have.

Mr. Nash: I support everything you have said. One of the problems that we face, as an industry, in getting into licensed establishments is the fact that most of our distillers are agents for imported products. The owners of the restaurants do not have an awful lot of time to spend with people. They have salesmen coming and going selling them whatever. So it is a lot easier for them to deal with one person or one distillery that can also supply them with their wine needs. This is one of the problems we face.

I agree 100 per cent. We have a lot of work to do in Ontario and in Canada. I am appalled at the service we get from Air Canada, not only for Ontario wine but also Canadian wine. I also flew a Canadian airline to Belgium, not Air Canada but Canadian Airlines and once again, I was served imported wine.

We have an attitude as Canadians that if it is imported it is better and I do not care whether it shoes, clothes, automobiles or whatever. If we are going to continue as Canadians in the lifestyle that we are accustomed to, we have to not keep taking pieces out of that circle. As Canadians, we have to keep supporting Canada and I do not know why we do not have that type of an attitude in this country, but it does not seem to be there. It is in every other country.

We have checked with the Italian embassy. We have just had a statement now that we are going to serve a percentage of Canadian wines in our Canadian embassies abroad--

Mr. Villeneuve: A percentage?

Mr. Nash: It is 25 per cent, up from six per cent. Now we are going to serve 25 per cent. The Italian embassy in Ottawa serves Italian wine. The French embassy serves French wine. The United States embassy says: "Well, is there anything else? We serve American wine." The German embassy serves 20 per cent Canadian wine, believe it or not. They said, "We want our people to see that there is an industry in Canada and what they produce." Hell, they serve more than we do.

Mr. Villeneuve: That is a shame.

Mr. Chairman: I do not want to belabour this, but there may be some element of the fact that it is more expensive that causes the feeling that it is better. Maybe if the price differential is narrowed that could disappear. I just wanted to tell the committee that we have not really investigated that. I have talked to Mr. McLellan today about perhaps finding a witness who can discuss with us, in so far as this discussion about the free trade agreement is concerned, the ideas that are being considered, I hope, on redefinition of what is permissible countervail in the General Agreement on Tariffs and Trade round and perhaps infusing into that definition subsidies at home.

Mr. Pelissero: You started your presentation with the concept of fairness and you ended it with fairness. I think that is all we are looking for. In response to Mr. Villeneuve in terms of not being able to have it both ways, as you are probably aware, as Mr. Villeneuve is, Ontario proposed a 12-year transition period. That was going to be our position with respect to GATT.

Another element of fairness and I think unfairness, really shocking and unforgivable, is the fact that, by mutual agreement, we have a seven-year phase-in period, front-end loaded, for the grape industry. Again through questioning through this committee, the only way that it was not 10 years phased in or over a longer period of time and a little more equality was because our federal negotiators felt, as you have identified, that it was an out-and-out bargaining chip, no way to make any other bones about it.

1700

I wonder if you would comment on, and I know it might be difficult in

light of a draft action being launched on behalf of the wine industry which is composed of grape growers and the wineries, the tenuous relationship that you may have going into negotiations with respect to price for the product. We had Jan Westcott appear before us on Monday and he identified four items the Wine Council of Ontario feels it is going to have to do, as a group of wineries, in order to stay competitive.

First was price and the second was quality. They as much as said that, in some cases, they may have to go to the United States to source product and I know it makes a bit of a tenuous relationship where on one hand you are negotiating a price and on the other hand you want to join them as a partner in taking a countervail action, and the amount of pressure that I am sure must be on yourself and the other board members and that translates down to the growers.

Do you have any comments in those areas?

Mr. Nash: As an organization, we have worked very closely together with our wine people. I realize the fact that they are trying to survive in this agreement, as we are. There may be a need for them to source their product offshore. We have proven that we have the quality. It has been proven time and time again. As far as negotiations, I would assume that we still have and we appreciate it very much the provincial stance that we cannot accept the seven-year phase-in, front-end loaded to the first two, but that we have to plan for a longer phase-in time.

I believe we still have room for negotiations with our wine people and are striving to do that now with the committee setup of provincial-federal representatives to try to deal with the issues that we, as growers, are facing and I believe the wine people are also talking to both the federal and provincial people on problems that they will face. At times, we are brought together when it is a combined meeting day where it is relevant to both.

We are different than the wineries. We are not going to see the elimination of markups in year 1 or in year 2 impacted as heavily under the provincial deal as what is happening under the free trade agreement that was signed by Reagan and Mulroney.

I believe there is a period of time for negotiations yet because their markups will not change dramatically the first couple of years. It will be phased down. At the same time, our prices are going to have to reflect the closing up of the markup structure that they will face. So there may be a need for some subsidy level at grower level to allow them to compete with world prices, which under any agreement they are going to be able to take advantage of, somewhat, after they have fulfilled their commitment that they made when they signed the provincial agreement. They have committed themselves to a purchase of Ontario product.

I guess what we are faced with in the immediate is the removal of probably one third of our acreage. That may be just the tip of the iceberg. I do not know. I do not have a crystal ball. I cannot foresee what is going to happen. I do not know at this point exactly which agreement we are going to be operating under. I do not know whether we are going to be operating under the General Agreement on Tariffs and Trade. I do not know whether the US is going to hammer us with Bill 301.

It is a changing world out there. It changed dramatically at the signing of the free trade agreement. It also changed dramatically when the GATT came down against us.

Mr. Pelissero: Last point, you do not take it as much of an "concession" on the Americans' part that we are able to transfer or change some of our grape growing acres into fruit and vegetable acres so that they would not be counted if we ever wanted to use a snap back provision. You do not count that as much of a gain then.

Mr. Nash: Oh shit, that is a nothing.

Mr. Haggerty: Just following up on Mr. Nash's comment about the distillers having quite an impact upon the movement of wine in Ontario perhaps through sales. I noticed recently, since we got into the free trade, that there was a movement made by one of the major distilleries in Canada, Seagram's, to go in and purchase one of the well-established French wine industries in France. I watched this very closely. I do not know if it was successful or not. I cannot remember the name of the family, but it was one of the well-established ones in--

Mr. Nash: It was Martell in the Cognac region and it is very well known for its production of cognac or brandy. They would hit me if I called cognac brandy. They would feel that they have got something entirely different, but in essence it is very similar to that--

Mr. Haggerty: It is just by coincidence when this came out here, the free trade agreement seemed to be nailing your group to the cross, you might say. You are finished now. Then all of a sudden there was that movement over there to buy into that industry. I just thought that perhaps the door was being opened so that he could bring in--well, the industry could be floating that wine back into Canada and sell it under one of the Seagram's names and get rid of local competition. Was there that possibility?

Mr. Nash: Oh, I think that is a very real possibility. In fact under the General Agreement on Tariffs and Trade, we gave away our largest product producer that uses 100 per cent Ontario grapes. We gave that away under the GATT. It was given away in Brussels. Now it is back on the table, but I do not assume that it is going to be changed. That is a distiller in Grimsby, Otto Rieder, Rieder Distillery, who has become a big player in the brandy industry in Ontario and in Canada. In fact, he has the largest selling product now of all brandies.

Mr. Haggerty: He is having some difficulty in moving into the American market, as I understand it.

Mr. Nash: Oh, he is having--that is it. It just emphasizes the point that they are very--you know, I look longingly at them at times, because they are very protectionist, and good for them. But where is our backbone? Why are we not? But we gave away the wholly Canadian brandy processor, the only company in Canada that processes brandy from 100 per cent Ontario grapes. Our Liquor Licence Board of Ontario is a bottler of brandy--French.

Mr. Haggerty: So what you are telling me--let us get into the LCBO then--is that there are some misgivings in the way that they handled the products--Ontario grown grapes, the wine industry and that. Does the tax have anything to do with it--provincial and federal sales tax?

Mr. Nash: Yes, it is a big player. We pay a lot of tax for alcohol.

Mr. Haggerty: Yes, but it is applied across, even on imports coming in. In other words, are you being taxed to death in your industry? Would that be of any benefit if there were some--I do not know.

Mr. Nash: We are being taxed very heavily. I am not saying that we are being taxed to death.

Mr. Chairman: The distillers.

Mr. Nash: Yes, so is the wine industry, but I accept that. It is a sin--it is one of the items that comes under heavy tax. Tobacco, alcohol and gasoline are three big revenue makers. I do not see that the provincial government or the federal government are going to reduce taxes on alcohol. We know we need revenue. We have to operate as a province and as a country. I think we will see taxes that will reflect that.

But the LCBO also is a very good merchandiser of alcohol. It is one-stop selling. We have 10 liquor boards across Canada and each one of them is one-stop selling for the producer. It is different in New York, where you talk to maybe 500 individual brokers in trying to move a product. Coming to Ontario they talk to one organization, the Liquor Control Board of Ontario. If they accept your product, they will then merchandise it all across the province.

1710

Mr. Haggerty: And no charge for it?

Mr. Nash: The charges are reflected in your markups, I believe.

Mr. Haggerty: But is that markup understood over there, though, when you are dealing with the GATT people?

Mr. Nash: I do not know. They are very naïve people.

Mr. Pelissero: When they want to be.

Mr. Nash: I think they accept that. They realize that we are a heck of a good market for them and they want to continue. They want to increase it because it is easy. It is much easier than the United States.

I also believe that our LCBO, as an arm of government and as an individual organization, does not have to scour the world looking for new products to list. Are we that sophisticated a consumer that we have to have 600 or 800 different products listed on the shelves? I cannot believe that.

Mr. Haggerty: I forget how many new ones are on every year that they have to go through.

Mr. Nash: It seemed ironic to me, and maybe just coincidence, that we banned 30 South African wines from the LCBO and in the next breath we listed 33 Portuguese wines. I cannot believe the consumer demanded another 33 Portuguese wines.

Mr. Chairman: Thank you very much, Mr. Nash. It has been extremely helpful. Obviously, it is not only your good presentation and the concern you put into it, but also the depth of your knowledge. You have widened our knowledge of the GATT process, frankly. It is unfortunate that you had to go through that process to do it and learn as much as you did.

I think you can realize that there is a lot of empathy. This is one of the few situations where there is a lot of empathy for your concern coming from all three parties. We appreciate your coming and being with us today.

Mr. Nash: On behalf of my colleagues, I thank you very much for the opportunity to come here today and make this presentation. Once again, my apologies for not being here when I was supposed to be here.

Mr. Chairman: That is quite understandable.

I have just a bit of housekeeping for the committee. As I indicated a little earlier, Mr. McLellan is trying to receive some direction from us on a second economic report. We have a document that he prepared for us as to what would be in it: to research and evaluate potential long-term economic implications, with specific references to exchange rates. We have talked to Professor Whalley from the University of Western Ontario, who is not able to do anything, and he has referred us to someone else.

I am wondering, in view of the time, if it would be possible to discuss this at 12 noon tomorrow. We should give Mr. McLellan an answer this week, if possible, as to exactly what it is we want, if we want anything. I know before Mr. Mackenzie left, he said he would be voting to scrap it, and I think Mr. Morin-Strom--

Mr. Morin-Strom: I was waiting to hear the proposal, but I am extremely sceptical that Mr. Whalley would be an objective observer.

Mr. McLellan: He is not available, though, Karl.

Mr. Chairman: He will not be the person doing it and I would like to hear--Mr. McLellan is proposing someone else with whom he has discussed it and maybe, just for a minute, you can say--

Mr. McLellan: Yes, it is difficult because, to start off with, we went through a long list. Four or five weeks ago, we looked at six or seven people and, for various reasons, they seemed to be falling either on one side of the political spectrum or the other. As Mr. Morin-Strom has said, it is very difficult to get an economist who has not made some kind of a statement.

Mr. Whalley seemed to be somebody who fell right in the centre of things. He is a very serious economist and has done a lot of model work and seems to be interested in that aspect, rather than making political judgements on things. He is not available because he is working for the Ford Foundation on a project in Tanzania and Kenya and he has referred us to one of his associates. So here we travel down the line as to whom we can get.

Quite honestly, other than being instructed to speak with Professor Whalley and having his reference to his associate, there is nobody else I have on my list. We have gone through about seven different economists and had a look at them. What I can say is that, generally, I think we know what economists have said about the free trade agreement with respect to tariff reduction.

A series of groups is starting to put out reports now. The C. D. Howe Institute has just put out its report and it is probably worth while for us to have a look at that. They have come out with their report on the assessment of the free trade agreement. The Economic Council of Canada is starting to talk about adjustment and adjustment policy and what it can or cannot do in that area. Informetrica, another respected Ottawa firm, has done work for all levels of government, provincial and federal, and it is coming out with its assessment of the free trade agreement in the first week in April. So we have a flood of economic assessments coming out within weeks.

Then we come back to our original discussion. Should we retain somebody whom the committee members can all agree is going to do the job for us? My assessment is that it is not an easy thing to do, to get somebody who is going to be all things to all people. So where does that leave us?

We have gone through Professors Lazar and Litvak. We have had Dr. Lipsey here today. Whalley is not available. Rotstein has made his position very clear. Harris has done work before for us and he has talked about the benefits of free trade. Safarian did a presentation when we were in the United States that day. The most respected and most talked about economists are Professor Whalley in Canada, Professor Safarian and Professor Harris. We have had dealings with two of them and, as I say, Whalley is out of the window so we come around full circle.

We can open up the process again and get another list and start to go through it. Another way to do it would be to pick people from either parts of the political spectrum, those economists endorsing the policy and their reasons for it and then someone like Professor Lazar. But Professor Lazar was before the select committee, I think, in 1985, before my time. He has been before this committee and we know his position on it.

Mr. Chairman: Mr. McLellan earlier today said he had found somebody who did not seem to have any published opinion, who was supposed to be pretty good, and my first question was, "Why doesn't he at this stage of the debate?"

I am also reminded that when the select committee was choosing people, we chose Arthur Donner to do a report. I guess I thought, having read his columns in the Toronto Star, that he would be fairly anti-free trade. He did a report on high-technology industries and came up saying that they would do OK. So perhaps we should remember Dr. Lipsey's answer that an economist is not necessarily going to be coloured by a statement and therefore be useless.

Yes, Mr. Kozyra.

Mr. Kozyra: Trying to determine an unbiased analyst introduces anywhere from a two to a 25 per cent degree error into it or more, as you just indicated, anticipating one thing and getting another. I am wondering whether there is any merit in pursuing that. Instead, I suggest that with this whole series of assessments coming out, we have a researcher from our own department tabulate those assessments and show the results that way, rather than assess an assessment.

Mr. Chairman: Rather than actually doing our own original assessment?

Mr. Kozyra: We do not know what we are going to get in that assessment because we cannot tabulate, even under oath and so on, whether the person is for or against or what have you.

Mr. Villeneuve: A précis on the mountain of information that will be forthcoming in the next six to eight weeks, to me, would probably be more enlightening than having one individual, whether he is perceived to be or whether he is as unbiased as he can be. We have only one person, where here we will have a flood of documents which, if we could have a précis of them, I think we would have a much broader spectrum anyway of the scenario as it is unfolding.

Mr. McLellan: I think that is something we can certainly do. I can undertake that myself. What may be worth while as well--

Mr. Chairman: On weekends.

Mr. McLellan: Yes, on weekends. But another thing that we could do, and I think we were talking about that earlier today, if we want, in the month of May, if we have a GATT expert and another ministry or two to discuss it, we may decide to have just one day where we have the various groups, for example, have the C. D. Howe people come in, have the Economic Council of Canada come in, have somebody from Informetrica come in, have a day where we have four or five experts and we can have a brainstorm on it. That may be one way.

Then if the Economic Council of Canada wants to discuss adjustment policy, we can all have a chance to look at this. I can make some notes for the committee, and we can attack them on those policies and hear it directly from them. I think that might be one way of doing it.

Mr. Villeneuve: I think that is good.

Mr. McLellan: To get four or five economists in and--what do you think, Karl?

Mr. Morin-Strom: --C. D. Howe.

Mr. McLellan: Well, no, I do not see how the guy--

Mr. Morin-Strom: It was an institute position.

Mr. McLellan: Yeah, we know Dr. Lipsey's opinion has been very clear for a long time. But this particular report is by Edward Carmichael, whom we have had before. If the committee wants Carmichael to come before it and defend what he is saying about the linkages between tax policy and free trade--which I think is something the committee is going to have to consider; we have not really looked at it very much--the implications of tax policy on free trade, and Carmichael does that in this document. He spends a lot of time talking about the implications of tax policy and linking that to the free trade agreement. Anyway, I think they should defend their positions, but Mr. Carmichael is quite distinct from Dr. Lipsey.

Mr. Morin-Strom: Should that be part of our tax reform?

Mr. McLellan: If we are doing some. I recommend that we should get these people on before we do tax reform because I do not know when that is going to be, if it is June or July, or what the agenda is for that. I do not know if we are going to be doing hearings.

I think for doing the free trade report, we have to look at tax policy because in the same way that you have fluctuations on interest rates and inflation factors have wide implications on tariff and free trade issues, the tax policy program as proposed by the federal government is very closely tied in. It is a package that travels with free trade and if we just look at free trade and we do not look at tax policy, I think we might be missing something.

Mr. Chairman: Also, our prebudget report suggests that we would like to continue looking at completely revamping tax policy. I do not know whether you had a chance to even look at it.

Mr. McLellan: I did a paper on that last summer.

Mr. Chairman: OK, we will take a look at your paper to start. Am I

hearing a bit of a consensus that we should, at least tentatively, postpone doing anything more on this with a view to seeing what comes out in the next several weeks and perhaps have Mr. McLellan do a summary of that when it is appropriate, and if we think there is a gap, look at the issue again in a month or so? Does that make sense? Could I hear a motion to that effect?

Mr. Kozyra: So moved.

Motion agreed to.

The committee adjourned at 5:24 p.m.

CARSON

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, MARCH 10, 1988

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

Individual Presentation:

Crispo, Dr. John, Professor of Political Economy, Faculty of Management,
University of Toronto

From the Ontario Public Service Employees Union:

Usher, Sean, Director, Special Operations
Robinson, Lukin, Research Department

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, March 10, 1988

The committee met at 10:05 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Let us get started. I will go on the record, just to clarify a set-to I had with Mr. Haggerty the other day. He has given me a transcript of the comments that Donald Macdonald made here, and indeed Donald Macdonald did indicate in dealing with countervail--and I thought your comments were in a broader context--that he was disappointed with the agreement and did not feel that in that particular area it accomplished anything.

Mr. Haggerty: We are no further ahead than we were before we started in the free trade.

Mr. Chairman: Yes.

This morning we have with us Professor John Crispo of the University of Toronto, who is perhaps one of the foremost commentators on this subject and travels and speaks, I think, perhaps more than anyone else and I know, in many cases, including this morning, does so out of the goodness out his heart.

Professor Crispo, you spoke to the select committee a couple of years ago on the concept of free trade, you will recall. I recall listening to my car radio on CKO a little later and you indicated that we had not listened to you. This morning we will give you our full, rapt attention. Carry on.

DR. JOHN CRISPO

Dr. Crispo: Maybe I said "didn't listen to me" with the stacked one that wandered around the province with members from only one party on it; but that does not matter, that is neither here nor there.

Let me just start off by saying, how long have we got? I do not even know.

Mr. Chairman: We have an hour.

Dr. Crispo: Oh well, we will get through the sum then. Notice that in a spirit of comradeship and friendship, I wore a red tie. I do not usually wear them, but I thought I should open on a--

Interjections.

Mr. Pelissero: Did somebody lend you that one or did you buy it?

Dr. Crispo: No, I had it from years ago. I had banked them.

I have been travelling a lot, and I have to tell you the reaction to this province's position on free trade that I received just during the last

two weeks. The last three days I was in the west. In fact, I arrived in Winnipeg almost the moment the government was defeated there and I now take full credit, because that is one down, two to go in terms of premiers against free trade.

I have to tell you that out in the west, Ontario's position on free trade is doing the reputation of this province immense harm. They see it as being very selfish and shortsighted, and there are a number of other things they say. I fully concur with that.

Mr. Haggerty: That would depend who you speak to.

Dr. Crispo: I think it is fairly safe to--

Mr. Haggerty: I have spoken to some out there too, and I have got different opinions--

Mr. Chairman: Let Mr. Crispo finish and then we will question him.

Dr. Crispo: I can tell we have a scrapper over here.

Interjections.

Dr. Crispo: At the other end of the spectrum, I must tell you in Newfoundland I was chastising the Premier and the government for their stand here and I was told after the speech: "Listen, leave him alone. If Peterson ever came out for this deal, Newfoundland would change its position." So he is doing some perverse good in some parts of the country.

I want to get right down to business. I have a couple of documents for you. One is called Free Trade Distortions and Misrepresentations. It was prepared in January and is still fairly accurate. The other one is called Meeting Peterson's Free Trade Conditions, which is the one I am going to concentrate on this morning. This is not the exact version that appeared in the Globe and Mail, because they edited it. I could not find the Globe copy. This is from back in October.

I cannot resist bringing to your attention a volume that I hope you will read when it comes out. It is called Free Trade: The Real Story. I can really blow my horn on this, because I just edited it. I got good people to write it. None of them are taking royalties. It will be \$6.95 and it is a labour of love. There are no footnotes, references, charts or tables. It is written for the layman.

The first 10 chapters tell the story of the free trade deal. The last 10 chapters take all the criticisms that have been levelled--there is a chapter on women, there is a chapter on culture and sovereignty--and all the foolish charges that have been levelled at this deal and they tell you what the real facts are. I will send the Premier (Mr. Peterson) one because we are such good friends on this issue.

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Mr. Pelissero: Is VHS or BETA available?

Dr. Crispo: No.

Interjection: It is a book.

Mr. Pelissero: I see.

Dr. Crispo: It is a book. You have to read it. I know that will be hard on a lot of you but I hope you will.

I want to start by talking about why I support this deal and then concentrate on why the Premier and his party should support it. I will be as brief as I can about the first part. We can come back to it in questions if you want.

Mr. Chairman: Incidentally, the two documents are being photostated for committee members right now. You will have them--

Dr. Crispo: Yes. I am just speaking informally now. The gist of what I say is in these documents.

As far as I am concerned, this is a good solid deal for Canada by any absolute standard one might use. I think you can say it is a great deal relative to the alternative that confronted this country in terms of United States protectionism. It is not perfect--I want to emphasize that--nor is it a panacea; I do not want to get into that, but there are some people who claim that those of us who favour free trade see it as a panacea for all our ills. Obviously if we have to deal with things like the deficit and tax reform. I could go on and on. It is a necessary but not sufficient condition for our future wellbeing.

Why do I say it is not perfect? First of all, it is not comprehensive. It is almost comprehensive but you could see where the power was in the two countries. The beer lobby in Canada and the price-supply management lobby in Canada were just too strong for anybody to cope with so they were virtually exempted. On the other side, you have the Jones act crowd, which is a pretty frightening group in shipping. They got that industry exempted. So it is almost comprehensive, but there are a couple of exceptions.

There is a commitment only in this agreement to move towards what we ultimately want to secure, which is a code of fair trade behaviour between the two countries. That is the five- to seven-year commitment. I am relatively optimistic something can be worked out. I think we finally got the Americans to realize that they have subsidies too, aside from defence subsidies. I was in New York recently. New York City gave NBC \$70 million over 35 years to stay in that city. That goes on all over the place down there. I think we can talk to them about subsidies and we will come out even on that.

There is also a limited government procurement code. I would hope in the long run for a comprehensive government procurement code. We get access to about \$4 billion or \$5 billion of their federal government contracts and they get access to about \$600 million of ours. The problem with that was that not only were the Americans not ready for it because they did not know how to handle their states, but if we had agreed to a comprehensive government procurement code involving provinces and municipalities and so on, then obviously the provinces would have had to approve so whether we could have got it or not, it was a wise political move not to put it in this time.

Why do I say it is still good to great? It enhances and secures access to our greatest customer by far. Most of you know by now, just briefly--I keep hitting people over the head with these figures--that roughly one third of everything this country produces is exported and that almost 80 per cent of that goes to the United States. In Ontario's case it is closer to 90 per cent.

It is the world's single wealthiest market. I do not think it is a falling star. I would be glad to elaborate on that later on if you want. It is the only market where we can compete, especially in manufactured goods.

One of the things the nationalists say that really drives me to distraction is that free trade will turn us into hewers of wood and drawers of water. It is exactly the reverse because the only place where we sell any significant amount of manufactured goods is the United States. That is best exhibited by where Ontario's exports go. If we lose access to that market because of protectionism from which we are not exempted through free trade, I hate to think what will happen to our manufacturing sector. So it enhances and secures access to that market.

It phases out virtually all tariffs--and there are a couple of exemptions--over a 10-year period. It removes many if not most of the nontariff barriers. I think I will say "many," because we do not know how many nontariff barriers there are on this earth and people invent new ones every day. The one that I think, just as an aside, is extremely important is the freer movement of sales and service personnel between the two countries. That has been a real problem, I would say, more for us than for them because I think they enforced the thing more vigorously than we did, but that is a great breakthrough for this country.

It introduces a binding binational dispute settlement procedure. There is more than one procedure, and I will come back to those later since they were so important in Mr. Peterson's reservations. It benefits all parts of Canada. It is one of the few policies we have ever had in this country that benefits all parts of Canada. I gather Joe Ghiz is still upset, although we have not heard from him lately. I think he has reread it and discovered that he does not get clobbered on energy, that the potato situation is much improved and that the dairy group has been fully protected. I am not sure you will hear much from him any more. Otherwise, there is no doubt in my mind it benefits all parts of Canada.

It threatens nothing that goes to the essence of this country, and I would particularly stress culture and regional development, although I would concede on regional development that will be subject to further talks during the five- to seven-year period. As I said earlier, I am confident we can trade off our regional development subsidies for their defence subsidies, because in my judgement, proportionately, their defence subsidies dwarf our regional development subsidies.

There is nothing in there about social security. I would argue that the agreement strengthens our ability to carry the costs of our social security system with an ageing population.

I happen to believe--if we want to deal with it, I would be glad to do so later on, although it is not on my list--that if you really weigh the whole thing, in balance, it enhances our sovereignty. It enhances our prospects for surviving as a separate nation. It complements and is consistent with the General Agreement on Tariffs and Trade. If you care about the world, which I gather we all should, it could lead to a GATT breakthrough. It is an example that I think could carry weight in the Uruguay round. Certainly that is one of the reasons the Americans are so interested in it.

Why should Peterson go along with this? Basically because the free trade agreement meets virtually all of his conditions, either entirely or in substantial measure. I want to work from his own list of conditions. I presume

a communiqué from the Campaign Ontario '87 elections office would be as accurate a document as one could find. He lists here six conditions that must be met before he would acquiesce, let alone endorse, a free trade agreement with the United States.

Let me read them one by one and then go over them.

"Without an acceptable dispute settlement mechanism to protect Canadian industries from"--again, I emphasize--"unfair harassment"--I think this is very important--and "provide genuine relief from the unfair application of US trade laws." There is no demand for a joint law or new laws. I looked at what we got, and I would argue that we have accomplished that. I guess I will have to talk to my friend Donald Macdonald, because if what I heard he is alleged to have said is true, we do have a disagreement. I guess people on our side do have them from time to time.

What the opposition is saying, and I imagine that would include the government of this province, is that all we got was the right to appeal American decisions under American law. I hear that all over the country when I am debating it: "All we got was the right to appeal American decisions under American law." People do not seem to realize how much that is. It is extremely important, because American law on countervailing is basically the same as our law on countervailing. On antidumping, our laws are more restrictive than theirs. Perhaps that is why we hit them with a lot more antidumping cases, while they hit us with a lot more countervail cases.

In any event, the laws are essentially the same; they are consistent with GATT. The biggest problem with American trade law on countervailing and antidumping, particularly countervailing, according to a lot of observers more competent than myself--I do not know whether Alan Rugman appeared before you, but he has written widely--has not been the laws themselves but the administration and interpretation of the laws.

The classic case was softwood lumber, where we won the case three years prior to losing it. Three years later we lost it--the same evidence, the same tribunal. In my judgement, if we had appealed it, we would have won in the United States. A lot of Americans believe that. The problem with appeals in the US is that it can take anywhere from two to five years. You just do not know how long you are going to be hung up in there. Meanwhile, the decision stands.

One of the great things about the binational dispute settlement mechanism is that the maximum is 315 days, which you may think is long, but it is short compared to what we have been going through in the past. The point is that under the binational system that has been put in place, the final appeal is to a joint body where we have equal voice and vote. That tribunal is to base its decision on the administrative record, which under American law is the evidence, the information, the hearsay, anything that got into the earlier proceedings--and we are always in the earlier proceedings, because that is where our interests are being gored, or threatened with being gored.

It will be making decisions on the merits in accordance with American law--I grant you that--but that is the same as our law, and the same thing will be going on on this side of the border if they are appealing something we have done. I think this is a fantastic breakthrough. In fact, I cannot understand--I think before it is over, we will hear from congressmen and senators who are going to react with some chagrin to the fact that the United States has ceded sovereignty to a binational body as the final appeal mechanism in this whole exercise.

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If you read the American statement of what we agreed to, they state baldly: "Canada would not agree to any deal without this in it, and we wanted a deal and it had to be in; so we agreed." I have not heard much from Congress on this. I hope they will not read it, because I think this part would disturb virtually any American. I think it is a great triumph for Canada because, unlike the path where we have gone down there as supplicants appearing before some tribunal where we had a voice but no vote, now we go down as equal partners before a tribunal where we appear with equal voice and vote.

I could also elaborate on the standstill provisions, which are designed to ensure that Canada is not sideswiped by future trade legislation aimed at some other country or the rest of the world. We are exempt now from anything like that, unless they name us specifically, which they have never done before to any country. Before they can do that, they have to go through a very elaborate mechanism, including cabinet-level discussions, which is something we have never had before; and there is the international trade commission itself--I have forgotten the name of it--the cabinet-level body which is going to oversee this treaty and watch its evolution and make sure that it works the way both sides intend it to work.

I think, when I look at genuine relief from the unfair application of US trade laws, I do not know how anybody can argue we have not met that 100 per cent.

The second point is that "unless Canada can continue to reduce regional disparities and promote regional development." There is absolutely nothing about that in the treaty. There is no change there.

I do concede that we are in for a five- to seven-year negotiating period. I think I have already made that point. My ultimate hope--and it was dashed at a Saskatoon conference, where we had a very good panel on Tuesday, with both Americans and Canadians, on the dispute settlement issue--is what I have been saying across the country. After the five- to seven-year period, I hope we have a code of fair trade behaviour which would say in effect: "If anybody files a complaint from either side of the border, eventually"--if we have a code of fair trade behaviour--"it goes straight to a binational tribunal." It does not go to a tribunal on either side; it goes straight to a binational tribunal. And what they look at is the level of subsidy in Canada, the level of subsidy in the United States, and if one is subsidizing more than the other, then there is a countervail, unless the subsidy is reduced.

The judgement of the group that was there on Tuesday was that that is not likely what we are going to get. We are more likely to get a common market type of system where you have green, orange, yellow and red types of subsidies. There are some subsidies that are accepted throughout the common market, like general social security systems, which some people hold to be subsidies. They are go, they are green, and nobody has to worry about that. If they are universal, they are all right. At the other extreme, there are other subsidies that are clearly targeted at a specific industry, and those are red. In the grey area, you go to the commission and you say, "Is this subsidy compatible with the treaty or is it not?" I suspect, having heard very intelligent discussion on Tuesday, that is what we will get out of the five- to seven-year period.

I am confident, and I know our negotiators are confident, that we can easily protect our regional development subsidies by holding them up against

all manner of federal, provincial and municipal subsidies in the United States for precisely the same thing. For example, their rural electrification program is a huge subsidy; it is not growing as much as it was. But they have all sorts of hidden subsidies down there. When they mention some of ours, we mention some of theirs.

As I said earlier, we are finally getting them to realize that they have got a lot. I admit there is a risk there, but certainly we are no worse off in that area. We can continue to reduce regional disparities and promote regional development.

The third is, "Unless it includes safeguards for the agricultural industry." You can dream in Technicolor if you want. Obviously, agriculture is a mixed bag. It is a dog's breakfast. It is the most protected and subsidized industry on the face of the earth all over the earth. I think it is going to be the death knell of the GATT round, because what do you do? Everybody has different types of protectionism and subsidies. Take dairy. We have these rigged price and supply management boards. I was part of one when I had a cream quota, so I know quite a bit about it. The best farms in Ontario are dairy farms. You can spot them miles away because they have this great deal.

Look what the United States does. About a year ago, they bought 1,800,000 dairy cows and took them off the market to get the supply down. If that is not supply management and if that is not a subsidy, I do not know. We both do ridiculous things to prop up so-called family farms which are gradually becoming corporate farms and are being taken over by agribusiness, but as long as you can wrap it around the term "family farm," you can get anything, unless you are a hobby farmer on the weekend. I do not get all those grants, darn it. Let us be fair about agriculture.

Mr. Pelissero: That is why you are upset.

Dr. Crispo: No, I am not. I threw it in as an aside. In agriculture, it is mixed. Let us be very frank. The grape guys in Niagara got gored. The fruit and vegetable people are worried about what happens in 20 years when the seasonal snapback production goes. I was just out in the west and I cannot believe what is going on in British Columbia. I went out there to look at agriculture. They are selling tomatoes in California. They are selling all fruits and vegetables in Washington and Oregon. Lettuce and cabbage--now this is greenhouse stuff--are very competitive. I thought they were in real trouble, but they do not think they are in that much trouble. I think they are in more trouble than they do. They are more gung-ho than I am.

I worry about the Holland Marsh 20 years from now. It will probably be covered with this city that is spreading at a rate that is frightening. We are destroying the place, but that is another issue. You have got one end of the spectrum--grapes, not wineries. If our wineries cannot survive competing with New York wineries, they do not deserve to survive, because that stuff is real rot-gut and our stuff is a cut above that. Now they can get good grapes too. But I concede there are problems there and there are some problems in fruits and vegetables. At the other end of the spectrum, the red meat guys, the cattle guys, are just in seventh heaven; so are hog guys.

I was in Manitoba just yesterday. The hog people are ecstatic. We produce better beef and hogs--hogs particularly--than the Americans do. It is just a little thing. I wish people would pay attention to this. It is not just that there will be no tariffs, but they have this ridiculous provision in the states that if you bring in a load of live cattle or hogs, you have to unload

the darned things, have a vet come in and check them again and the average cost is \$300 to \$400 a truckload. That all goes. They will accept our veterinarian certificates. People just are not aware of all these little things. That is a nontariff barrier. They are all over the place. They are going. So at the other end of the spectrum, you have got a very happy group.

Grains are happy. In fact, they are not worried because in North Dakota with its Durham wheat and No. 1 red, or whatever it is, those are the two areas where they are really afraid of us and we are very competitive. The grain guys are on side.

What do you say about dairy and poultry? I give up. I have some sympathy for poultry and absolutely none for the dairy guys. I am just fed up to the teeth. If I was the government of Canada, I would take away the import quota I just put on yogurt and ice cream, because no matter what you do for them, those ingrates never acknowledge that they have got a fantastic deal. Their deal is better under this free trade agreement and what we have done under it than it was before, because the price and supply management remains. There is a slight increase in the import quotas, but we put import quotas on yogurt and ice cream which we did not have before.

Even for my friends up in Simcoe county, who were very hostile--and if my barn had burned down after the free trade agreement was signed, I would have been dubious about why it burnt--suddenly their quota is going back up in price. It went down last fall because they got all panicky and they did not know what the deal would be. It is going back up, so they are talking to me again. They say, "Hey, Crispo, this is not so bad after all." I say: "I told you that. We protected you too much." They say: "Well, don't say that. Don't be so offensive." But we did.

The poultry guys did not get quite the same deal. They are not violent enough. You remember the dairy farmers of Quebec broke down the doors of Parliament. You get a premium for violence in this country. I have told the poultry guys, "You have got to get a bunch of roosters and hens and go out and peck down the doors and see if you can get some influence there." The poultry guys have got a little more to worry about. The poultry representative at this conference in Saskatoon was a woman--very effective--and she was wailing because the dairy guys got a better deal than the poultry guys did. I took her word for it. So they have got a little bit to squeal about.

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When I look at the overall result of the agricultural package, I am amazed that we were able to protect agriculture to the extent that we did. You may be able to argue slight losses. There was some report before your committee that said a one to two per cent loss or something. I cannot even buy that, but let us assume so. "Unless it includes safeguards for the agricultural sector...." The biggest safeguard we have got for the agricultural sector is these price and supply management boards. We even can add new ones. Put them on potatoes. Let us wreck that market, too. So we can mess around all we want. The Americans agreed, because they mess around themselves.

The fourth is, "If it threatens Canada's cultural identity." Well, God bless me. I just cannot believe it. It is exempted. there is this vague clause about retaliation.

[Laughter]

Dr. Crispo: No, I think it is vague.

Mr. Pelissero: Said Attila the Hun.

Dr. Crispo: No, but look what is left. There is no threat to the Canadian Broadcasting Corp. CBC covers every nut that appears before this committee. When the sane ones come in, they are never here, but that is true across the country. Bob White is their next candidate for Prime Minister, so what would you expect? Even the British Broadcasting Corp. was not hurt by the common market, so the CBC is fine.

With regard to subsidies for the performing arts, both countries do it; it is agreed both countries can continue to do it. On Bill C-58, I did not believe it. I do not know how they protected that damned thing. They protected it. What did we give up? We are not going to steal border transmissions anyway. We are a really honourable country. We have been stealing transmissions, sticking in our commercials for the American ones and paying no royalties. I suspect the Ontario government would want us to continue to do that. We changed the discriminatory postal rates.

I am fed up with this stuff on Canadian culture. Across this country, I asked, "Ten years ago, 60 per cent of our trade was with the US, now 80 per cent of our trade is with the US; in the last 10 years have we become more or less Canadian?" If you travelled the length and breadth of this country as much as I do, you would know that the pride in this country is phenomenal. One little thing I would cite is, when the Blue Jays nearly made it, I was in the west a lot of the time and I could not believe it; everybody in the west, every bar, was tuned into the Blue Jays. I said: "No, no, that is Hog Town. You don't care about their teams." They said, "Ah, it is Canadian. We may make it finally in the big leagues." They were so proud that a Canadian team was coming close.

Mr. Ferraro: They got so tired of watching the Leafs.

Dr. Crispo: Look, this is the dumbest town in the National Hockey League. They know they will fill Maple Leaf Gardens with losing teams, so why should they ever put a winner in here? They have the biggest laugh. If we did not go for a year, we would finally have a winning team again. But you are trying to distract me and you cannot do it.

Mr. Chairman: I hope you leave some time for questions.

Dr. Crispo: How are we doing on time? We are doing all right. The fifth thing is foreign investment, if we cannot screen foreign investment in the best interests of Canadians. I agree, we yielded some there. We went from \$5 million to \$150 million on the threshold. We have not been doing much with these reviews anyway. At the end of the Foreign Investment Review Agency, under the Liberals, it was not doing much; Investment Canada has not done much more. I happen to feel they are not necessary anyway, but that is neither here nor there.

When you say you have gone from \$5 million to \$150 million, people say, "Oh, my God, we have lost control of our destiny." On the \$150 million, about 600 of our largest firms are still subject to scrutiny in the event of a takeover, and that accounts for 66 per cent of corporate assets in Canada. The big boys are still under; at the other end, all the foreign ownership restrictions we have in cultural and energy industries, and fisheries, of all things--I do not know how that got in there, but there are some others where

we have these restrictions--are all grandfathered; they all stay. All the sensitive industries still are covered by foreign ownership restrictions. I do not understand the fuss about that.

In return--and I have not been talking in return generally, but I would be glad to talk about the "in returns"--we get national treatment in the US. This is so important. People do not understand that investment and trade go together today. If you are a multinational corporation, you not only trade all over the world, you invest all over the world. Our companies are getting big and they are really investing in the United States. We heard the fuss about Campeau.

The Americans--what a bunch of hypocrites. It is so ironic. Fifteen or 20 years ago they were saying: "Listen you, Canadians, why are you worried about foreign investment? It is just a neutral thing that flows around the world. Capital does not have a nationality. What are you so upset about?" Suddenly the Americans have discovered that capital has a nationality because it is not American, it is Japanese, Hong Kongese, South Koreanese.

They may have a FIRA down there soon. We will be exempt. Do not minimize the significance of that. We are exempt. Yet they allowed us to keep our restrictions on companies worth over \$150 million and all the grandfathered stuff.

Mr. Ferraro: Assuming the omnibus trade bill is not going to go through.

Dr. Crispo: I was going to say this later, but I will say it to you now. The Americans know, they have told in no uncertain terms and our book says, everybody says, if there is any fundamental incompatibility between the free trade agreement and the omnibus trade bill, there is no way Canada can agree to the free trade agreement. If there is a basic inconsistency, it is not on. They know that.

If the free trade bill goes through first, we are probably all right. The best thing about Super Tuesday was Gephardt. But that increases the prospects of some sort of omnibus trade bill. Because if Gephardt had done well, they would probably have to put that stupid amendment back in. If he goes down the tubes in Illinois, we are finished with the character and that probably means a more reasonable omnibus trade bill, which means it is more likely to pass. But if there is any fundamental incompatibility or basic inconsistency, it is not on.

Let me tell you, Bentsen and Rostenkowski and all the Americans know that. I have been down there enough with others. They have the message. I gather you are going down there. Are you going down there? Well, you tell them the same thing but do not sabotage Canada. Do not go down and do what Axworthy did. I am proud of the Premier (Mr. Peterson) because he has said, unlike his more irresponsible federal leader, that he does not think it would wise to rip up this deal if it is signed.

They are doing immense harm to this country down there saying that, because the Americans have enough reasons for worrying about this deal. There is a lot of opposition down there. Now they are saying, "Lord, why did we sign this with an opposition that says it is going to rip it up?" They will not. I will guarantee. I will bet anybody in this room if we have this deal, they will not rip it up. If they do, I want to go with Turner and Broadbent to Oshawa when they have a parade and announce they have just torn up the FTA and the auto pact. That should be a fun day.

Let me go on to the final one, the auto pact. I just mentioned Oshawa. It is propitious that I should do so. It is auto pact plus, not minus. The safeguards remain, both the assembly ratio safeguard and the 60 per cent value added safeguard for the Big Three. If my good friend Bob White, who wisely will not debate me, were here, he would say: "Crispo, when the tariffs go, the big stick goes. We cannot enforce the safeguards."

That is a bag of hooley, because the more important consideration to the Big Three these days is the \$3 billion worth of offshore cars and parts they import into Canada duty-free at a saving of \$300 million a year. They lose that privilege if they forego the safeguards, so there is a very big stick there. I presume you have probably heard from the Big Three. They have certainly been very vocal publicly about their support for this deal.

In addition, there is this new 50 per cent hard, I stress hard, North American content rule for other producers. I have a horrible feeling--I do not know whether I even want to put this on the record but I am not usually shy--that if there is any last-minute scrambling to change this deal that will go to 60 per cent because the greedy parts makers on both sides of the border, not caring about the consumers of Canada and not caring about the rest of the world, want to get it to 60 per cent. Since both sides want it, and that would ensure the support of the rust belt states, it may happen. I would not like it to happen, but from a Canadian-American point of view, I guess it is great if you do not care about the rest of the world or consumers.

What I think you have to look at is the alternative. I was at a conference in Washington two or three weeks ago with an economist for the United Auto Workers. I have forgotten his name. I apologize as I should remember it, because I had lunch with him. I wanted to find out how serious he was. They want the auto pact gutted and the seven governors and the seven congressional delegations of the seven leading auto-producing states have together said to the administration: "If this deal does not go through, serve notice under the auto pact. We do not want those safeguards any more." They were supposed to be temporary in the first place. Canadians never were willing to talk about them.

If you want auto pact minus instead of auto pact plus, continue to reject this deal. It is insane. This has strengthened the auto pact. I just do not understand.

I look at this list of objections and I get mad because this is a good-to-great deal for Canada as a whole, especially for Ontario. This province stands to gain more than any other part of the country from the FTA because we are so well poised to take advantage of it and we got the big industry that needs the access. They are pleading with you. Who of significance has come in here from industry and said they are against this. It is not just big business, the business council, the Canadian Manufacturers' Association, the chamber of commerce; it is small business.

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Mr. Ferraro: Frank Stronach.

Dr. Crispo: Frank Stronach, and he is saying it is good for us economically. The man is trying to play philosopher-king and you would pick one guy in the whole country who now is a Liberal candidate for a cabinet post.

Mr. Pelissero: He has not won the nomination yet.

Dr. Crispo: I hope he does not, but I think Turner deserves him. Frank and I are good friends. He wants to debate me. I cannot wait. In Saskatoon, he issued a statement that Crispo was afraid to debate him.

Mr. Pelissero: You are going to run for the Conservatives then?

Dr. Crispo: I would not run for any party and no party would have me. It is a mutually compatible situation we have here.

Peterson laid down his conditions. I say they are mostly met. There is no reason for Ontario to stand in the way of this. It is doing immense harm in the United States by doing so. It is also creating a lot of unnecessary ill will in other parts of the country. There never was any reason for Ontario to oppose this deal and you should get on side and ensure that we get this deal and then run with it and exploit the daylight out of it. Let me stop there.

Mr. Chairman: All right. We have a whole lot of people who want to ask questions.

Mr. Pelissero: Thank you for your representation and feelings with respect to the free trade agreement. I would like to touch on a couple of areas without getting into the supply management system which is near and dear to my heart as an egg producer. I will leave that alone, other than maybe to compare the supply management system that was left in place with the tenure system, in the sense that universities could still have tenure under free trade and yet source professors at the cheapest source, if we could make the comparison. The structure is still there, but if the raw product is going to come into the processors, or the finished product is coming in, that just diminishes the requirement or the need for the supply management system. We will have to wait and see where the federal government is going to go in the General Agreement on Tariffs and Trade discussions, after it has put forward some statements about wanting to liberalize trade restrictions around the world.

What I am interested in is your opinion of what would happen if we went to a 90-cent dollar.

Dr. Crispo: We will not go to a 90-cent dollar unless Canada is doing extremely well. The flexible foreign exchange rate is the balancing and equilibrating mechanism in this deal. The Americans did not understand that at first; now they do. We had trouble with Baker and some others at first.

If the Canadian dollar goes to 90 cents under free trade, it means we are really selling into the US and our surplus would be increasing and therefore there is pressure on the dollar upward. That helps them. If we are losing, as the nationalists foolishly say we would, then the dollar would go down.

Obviously, if the dollar goes up, Canada as a whole is winning. That does not mean that some producers in Canada would not be losing. I am not going to lose a great deal of sleep about that because if the country as a whole is gaining, we are obviously shuffling resources towards the ones who are really gaining by getting more ready and secure access to the US. But I will not sit here and tell you that, in the process of winning under this deal, there will not be some losers. I do not think it will go to 90 cents. I really do not, but obviously that would be hard on some producers. But it would signify that Canada, as a whole, was winning.

Mr. Pelissero: In terms of job creation as a result of this deal, we have heard the federal government talk about 500,000 jobs created, downsized to 240,000, downsized to 120,000 and downsized even further yesterday. Dr. Lipsey of the C. D. Howe Institute basically said there are going to be some jobs created and there will be better quality jobs than quantity created. Would you care to give your estimate in terms of concrete--

Dr. Crispo: I do not have a figure. I do not think anybody has a figure. The problem with econometric models is garbage in, garbage out. It depends on what assumption you put in. I am very optimistic about job creation in this country. I have a higher figure than the Department of Finance for adjustment over the years, but if you look at adjustment relative to what is going on in the economy, the Department of Finance said 25,000 a year loss. Let us double that to 50,000. Four million people change jobs in Canada. That is not a reliable figure because it is construction workers going from job to job, summer students and all sorts of things, but a million people in Canada are severed from jobs a year. So we add 50,000. That is one twentieth of the total. I am not going to get upset.

I cannot tell you the net job creation. I am convinced it is up. Nobody knows the number, but I think what you have to do--and nobody in Ontario ever wanted to do this in those surveys and studies they did earlier--is look at the probability of job increases, however great, compared to what would happen in this country if we did not get free trade and the US went protectionist. I think the job loss then becomes absolutely devastating. It comes back to the real choice. It is not between free trade and the status quo; it is between free trade and US protectionism.

Mr. Pelissero: That was going to be my next question. Did I understand by implication that you would withhold ratification on this side until we saw what was happening with the omnibus trade bill, regardless, if the Congress passes the free trade agreement first and then passes the omnibus trade bill, without somehow making them compatible?

Dr. Crispo: No. If the free trade bill is passed, we sign.

Mr. Neumann: We have already signed.

Dr. Crispo: But we have to ratify it. We finally sign. We have signed tentatively subject to ratification. If the free trade bill is passed before the omnibus bill, I would sign right then and there because right then and there we are in the standstill provision. If they then pass the omnibus bill, they have to specifically name Canada.

Mr. Pelissero: And if they do not?

Dr. Crispo: If they do not, we are exempt. So I would sign, and I would say this. If the omnibus bill is signed before the treaty comes into effect, we are not exempt because the treaty is not in effect. But we are still not there. We just serve notice; we give the six months' notice right away if it is fundamentally incompatible. I would get this through as fast as I can, and the only thing that would stop me is if they passed an abysmal bill, the omnibus trade bill, that is really inconsistent.

Mr. Pelissero: Without wanting to put words in your mouth, do you feel the free trade deal was struck or is necessary because of the protectionism in the United States and that was the only reason?

Dr. Crispo: No. That is not the only reason. There are three major reasons. That is the negative reason. The neutral reason is that I am not optimistic about GATT, and I am frightened to death of a trade war. I will not go into details; it would take a few minutes. I am not optimistic about GATT.

The third reason is it is the single wealthiest market on the face of the earth. I want ready and secure access to that market, period. That is the positive reason.

Mr. Pelissero: And you think we got it through the deal?

Dr. Crispo: I think we got a fantastic deal. It is a better deal than I thought we would get.

Mr. Villeneuve: I was in Quebec City a couple of weeks ago, and I found myself in a very strange position with some New Democrats from Ontario, some Liberals from Ontario and some Liberals from Quebec. The province of Quebec is pointing a very accusing finger at the province of Ontario and saying some of the things that you have said, that we are overly negative of the situation and that we stand to gain most.

The Premier made a statement at a fund-raising dinner the other day. He said, "This deal would indeed divide region against region," and I cannot quite understand that. Could you give us your perception of it?

Dr. Crispo: You mean our Premier said that?

Mr. Villeneuve: Yes.

Dr. Crispo: He should know. He is causing the divisions. He persuaded Joe Ghiz to go along and Joe has, I think, really fundamentally changed his mind, but he is not going to say so. I do not blame him for Pawley, because that was done by the central Canadian labour and NDP axis.

The only force of any significance in this country standing against this deal is Premier David Peterson, and it is not doing good for this country, especially when the rest of the country sees him with the auto pact and says, "You have your special deal which nobody else can have." Nobody else can have an auto pact in any other sector. They are all illegal under GATT. You cannot have sectoral deals. The only deal we can have is one embracing 80 per cent of the trade between the two countries. So here we sit with our special deal, saying the rest of the country should not even have a fraction of what--

Mr. Ferraro: It is a national deal. What is so special about it?

Dr. Crispo: What is so special about what?

Mr. Ferraro: The auto pact.

Dr. Crispo: The auto pact is an Ontario deal.

Mr. Ferraro: No, it is not.

Dr. Crispo: We have one plant of significance in Quebec. It was a central Ontario pact, let us be clear. We got all the benefits. What have they got out west as the benefits from the auto pact? Name something of significance.

Mr. Ferraro: Why have we to apologize to Grant Devine because he was not smart enough to--

Dr. Crispo: You do not have to apologize. You have to think of the national interest and not just Ontario's interest and not just sit on your haunches and say, "We got our auto pact, the rest of you don't need anything and the devil with you."

Mr. Chairman: I think Mr. Villeneuve has a question.

Mr. Villeneuve: Could you comment on GATT? What can we do in the negotiations that are ongoing to provide some additional protection? I am not too much concerned about the free trade agreement. What really concerns me is GATT decisions coming down the pipe, which will be coming down the pipe in the next two years, which will very greatly adversely affect us, at least that is what it looks like to me.

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Dr. Crispo: I do not know what the decisions are, forgive me. The greater risk is a GATT breakthrough. I would like a GATT breakthrough. I think GATT has served us well since the Second World War. I am a GATT man. None of the people on the side of the FTA see this as a substitute for GATT. It complements and is consistent with GATT. You do not need to worry about GATT because there is not going to be that big a breakthrough.

I did not want to get into this--the study is totally unreliable--but the people who say women are the most vulnerable--Marjorie Cohen does not say that--also say they believe in GATT. If you believe that women, because they are in the apparel, textile, boot, shoe and some other industries, are the vulnerable ones, then you should be against the FTA and GATT, but you should be especially against GATT because the threat to our heavily subsidized, highly protected industry does not come from the US, it comes from GATT, and that may be what you are thinking about.

I happen to believe that if we get the FTA first and we gear up to compete within the North American market, we get the economies of scale and the volume and the specialization, we will be in a better position to compete if there is a GATT breakthrough, which I do not even anticipate. But I know, as surely as I am sitting here, we had better get the FTA first before we subject ourselves to a major GATT breakthrough.

Mr. Villeneuve: Finally, on agriculture--and I know you are quite conversant on it--the Ministry of Agriculture and Food in Ontario has put out what I think is a very political paper saying that \$95 million would be lost. I have replied to it in a number of areas, and I think we are now getting agreement from the minister that indeed that would not be the case, and that it was the worst possible scenario that was presented.

The processors of products in Ontario are an area that I am wondering about. Could you comment on that?

Dr. Crispo: Poor Fleischmann of the--

Mr. Pelissero: Grocery Products Manufacturers of Canada.

Dr. Crispo: I just forgot their name. They are dividing. I think the majority now favour the deal because you get rid of the two-price system on

wheat, and there are a couple of other things that favour food processors. But food processors who need dairy products and poultry are really vulnerable because they are going to be forced to pay higher prices in Canada except for the limited amount they get on import quota increase, and that puts them at a grave disadvantage relative to their American counterparts.

The dilemma was that we had to make a choice: family farm or food processors? I am sick and tired--I was out in Manitoba, and Manitoba has a government position paper out saying, "They jeopardize the food processors." The Manitoba government and the Ontario government were among those that said: "Don't touch the family farm. Protect the farm marketing boards and all the rigged systems we have got."

You cannot do that without hurting food processors, and you cannot make a deal in any of these areas. If you decide to protect one group and get special privileges for them--we have the same dilemma, by the way, between apparel and textiles and between furniture and textiles. It is the same thing. The textile lobby is very strong in this country, so we protected it. In the process, we hurt apparel and furniture. But you make a decision in your country; you make a tradeoff. We traded off. We said: "The family farm is sacred. If some food processors suffer, so be it." That is what we did, and anybody who puts it otherwise is just not being realistic.

Mr. J. B. Nixon: Professor Crispo, you have made quite a name for yourself on the rubber-chicken circuit and hotline shows.

Dr. Crispo: Say "poultry."

Mr. J. B. Nixon: Poultry?

Dr. Crispo: He doesn't want me to say "poultry."

Mr. J. B. Nixon: I take it you consider yourself an expert on the free trade agreement.

Dr. Crispo: An expert? Every time I go to a good conference like the one in Saskatoon, I learn something else.

Mr. J. B. Nixon: Are you telling me you are not an expert?

Dr. Crispo: I do not know every clause of this agreement. I think I fully understand the main provisions, but if you asked, "What's on page such and such and sub such and such?" I would not know, and if you showed it to me, I might not quickly recognize it.

Just to give you an example: Yesterday in Manitoba, at the University of Winnipeg, this professor came up on that section 15, movement of sales and service personnel, and he said: "Look what it says. Temporary is somebody who doesn't set up a permanent household in the other country." Can you be a gypsy and wander around in the country? He said, "That means American professors can come in and take my job." I said, "I don't think it means that, because that would be permanent residence." But I looked at the list, and I read the thing, and I found myself saying, "We really haven't nailed down what that means." So I learned again.

Mr. J. B. Nixon: I know of you only by your reputation as a person who speaks out on particularly this trade agreement.

Dr. Crispo: Yes.

Mr. J. B. Nixon: And I would rather not call it a free trade agreement because I think it has costs, just to let you know where I am coming from.

Dr. Crispo: I kind of figured.

Mr. J. B. Nixon: Can you tell me a little bit about your background? What are your academic qualifications?

Dr. Crispo: All right. I took a BComm at the University of Toronto and a PhD in industrial economics at the Massachusetts Institute of Technology, where I took courses from Kindleberger and others who are well acknowledged as much more prominent in the field of international trade economics than I am. But if you want me to level with you, which I think is what you want me to do, I have spent most of my life in industrial relations. I taught industrial relations, but I always taught some economics. In the last few years I have taught more business courses, more introduction to business courses and more business government relations courses. My interests have evolved. But my initial training better equipped me for what I am doing now than what I did initially.

Mr. J. B. Nixon: Can you venture an opinion as to whether or not there will be any jobs lost as a result of the implementation?

Dr. Crispo: Oh yes. I told you earlier in passing. In reply to somebody, I said I think the Department of Finance may be a little low with its 25,000 a year. I am prepared to say 50,000 a year. I said from day one--this is a guesstimate, OK?--looking at sensitive industries in the country, maybe 500,000 over 10 years. Nobody else thinks it is that high, but I wanted to assume the worst. That is 50,000 a year, that is only one twentieth, five per cent, of the number of permanent separations that occur in Canada per year. It is not a big increase.

If you want to know where they are, you have people in here who will tell you. I cannot tell you them all. Obviously grape growing is an example. The cosmetics industry is worried. Magazines are not worried any more. The furniture industry is worried. The apparel and fur industries want to see what happens with the announcement the government should be making in a couple of weeks. Some branch plants that have done nothing but produce exactly the same thing that was produced in the United States and did not get a product mandate, North American or world, are vulnerable. They are scattered around.

But it is not a massive thing and, compared to the normal job mobility, job creation and job loss ratios in Canada, it is not something to get upset about.

Mr. J. B. Nixon: Do you think it will be a political requirement that either the federal or provincial governments engage in job retraining programs?

Dr. Crispo: Yes.

Mr. J. B. Nixon: Estimated costs on them?

Dr. Crispo: I hope the federal government is right. I am impressed with their job program. I have forgotten the name of the Ontario program, but

I am even more impressed with what Ontario has been doing in that area. I think you are making great strides in that area.

The federal government's position right now is we have got fairly massive programs for retraining, upgrading, relocation and income maintenance and if those do not prove adequate, we will add more money.

The alternative was to name an amount in addition for free trade. The problem with that is, no matter what amount you named, it would not be enough. If you named enough, if you named an amount that nobody could complain about, like \$25 billion or something, everybody would say, "See, we told you everybody is going to be unemployed." There was no amount that would satisfy the critics. The danger in naming an amount is that it gets spent even if it is not necessary.

Mr. J. B. Nixon: OK. I am not asking for your political judgement. I am asking for your academic judgement.

Dr. Crispo: I do not know. We are only adding one twentieth to normal turnover in terms of permanent separations. I will go along with the argument that we should use existing programs and if there is a shortfall money should be added.

Mr. J. B. Nixon: Is there a particular region of the country that you think will be more affected than others?

Dr. Crispo: Adversely?

Mr. J. B. Nixon: Adversely.

Dr. Crispo: I would think, strangely enough, that Quebec is more vulnerable than most, depending again on what the apparel-textile tradeoff is in Canada. It is interesting that that province, because of growing entrepreneurship in other sectors, is so pro free trade. I do not think it is because of electrical exports. They would have had those anyway. That province I think very bravely, said, "We don't want to be stuck with losing industries. We want to have winning industries and we want to transfer the people from born losers to born winners. That is why we went along with it." I think Quebec is probably the most vulnerable, depending on the assumption, especially about the apparel-textile tradeoff.

Mr. J. B. Nixon: Which region will face or acquire the most benefits in terms of job creation?

Dr. Crispo: Right here.

Mr. J. B. Nixon: In what industries?

Dr. Crispo: Oh my God, everything: automobiles, steel, chemicals, telecommunications, urban transit, services and resources, although northern Ontario gets that. It is the broad spectrum, and we have the best mix to take the fullest advantage. Although, listen, I was at another conference yesterday with the western transportation agency. Another thing that Canadians do not appreciate about this deal: We have been selling raw materials--not even semi-processed, not finished, not manufactured--and the American tariff schedule was jimmied against us with no tariffs on the raw materials, higher tariffs on semi-processed goods, higher tariffs on fully processed goods and higher tariffs on manufactured goods. Under this deal they all go.

The incentive to upgrade and add value in Canada because of this deal is unbelievable, and those resource guys out there are just hungry to get at it.

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Mr. J. B. Nixon: That is based on the assumption that tariff policy, tariff rules actually influence industrial productive activity.

Dr. Crispo: They do.

Mr. J. B. Nixon: You say they are the prime determinant?

Dr. Crispo: No. It depends on the type of product. For example, there was a guy there yesterday who produces resins. He just got a joint deal with China. He is out of Vancouver. I wish I remember the name of the company. It is a fantastic deal. They are going to put a plant in Canada to supply that plastic stuff you put around stuff. I gather resins go into egg cartons and other things. I do not know what he was talking about; I do not know the technology of this. He said, "When you get to bulky things like egg cartons, you produce them close to the market." He says, "We cannot get into that, except for the Canadian market, because they are too bulky to ship in the finished form, so you sell the raw material." Obviously, there are other variables besides tariffs.

Mr. J. B. Nixon: One final question; it has to do with the auto pact. A lot of the auto producers are touting the just-in-time production method and so on. I am not in any way an expert. I am completely naïve about automobile production. But it strikes me as odd when people say if we are going to utilize the just-in-time production system, we will see enhanced or increased production in Ontario.

To me, the market and the materials are in Detroit, Cleveland, Toledo and so forth. With the increased transportation costs, that increases the delay in the just-in-time process. Why are you going to locate up here when your market is down there, when your materials are down there?

Dr. Crispo: Just look what has happened under the auto pact. I urge some of you to go on over and see that new Autoplex in Oshawa. That is state of the art. That is it.

Mr. J. B. Nixon: Yes. But that was negotiated under the existing auto pact.

Dr. Crispo: But the auto pact is strengthened. The auto pact has been a magnet for auto parts producers in Canada. You are right. I cannot believe it; you go down to that Windsor-Detroit bridge, and there are cars going south, parts coming north. They do it. I do not understand. I agree with your point. You would think you would want everything right there.

For example, at the Autoplex, the seats in those General Motors cars are produced by a different company, but it is right in Oshawa and they literally come right over to the assembly line, in the right colours and so on. But that is such a big production facility, it has become a magnet for all sorts of parts suppliers. I suspect Oakville and Windsor are the same.

But apparently--I would make the same point you have; I am not an expert on auto production--it pays to ship parts back and forth across that border, because they do it in staggering numbers.

Mr. J. B. Nixon: You would think over the long term--obviously, there are a lot of cash investors in Oshawa right now who are probably going to utilize that and exploit it until it ends its useful life.

Dr. Crispo: It is the best plant in the world.

Mr. J. B. Nixon: Twenty years from now, though, when they are making investment decisions to build a new plant, I think they would build where the market is.

Dr. Crispo: I am not sure you are right about that. This is a market, a huge market, and we are very accessible to the northeast market. We are just as well placed to serve New York as Detroit is.

Mr. Haggerty: That is why they have located in Ontario.

Dr. Crispo: That is what I am saying. Not only that; they also have an experienced workforce. I would like to say this on the record. Bob White and I disagree on just about everything these days, but I am very proud of his membership in Oshawa. They have adapted to this new technology, they are working with it and it is something to behold. It goes to the confidence factor in this country; if only Canadians realized what their entrepreneurs and their workers can do if they put a mind to it.

Mr. Chairman: We started at between about five and 10 after. Let us see if we can finish up in the next five minutes.

Mr. Neumann: First of all, coming from the city of Brantford, where we benefited from the industry and labour adjustment program in the early 1980s, with free interest to industries and assistance, portable wage packages to employees who were laid off, retraining and so on, I have an interest in the programs that assist communities hard hit by dislocation. Do you see this deal in any way affecting the ability of the federal government to implement such programs in the future?

Dr. Crispo: Not in the short run. In the long run, when we negotiate the five- to seven-year deal, those things will all be discussed. But as you are from Brantford, you are familiar with what you were bidding against on the other side of the border. You look at the programs they have had in Michigan, Ohio and those other desperate states. They bid just as highly for new jobs as we do. I think there will be a sawoff. I said red, orange, yellow and green. In my judgement, neither the American federal government nor its state nor its municipal governments is going to be that much more willing to give up subsidies than our governments at those levels are, so I think there will be a tradeoff.

But I am not going to sit here and say they will not be discussed. They can be discussed now. They could conceivably be subject to a countervail, if the Americans ruled it was a subsidy. That is why I want the five- to seven-year deal.

Mr. Neumann: Would you concede that Canada is viewed differently in the world than the United States is?

Dr. Crispo: Yes. That is why Americans put Canadian flags on their backs when they backpack.

Mr. Neumann: Do you not see a risk in Canada's being viewed as the

junior partner in a North American trading bloc, rather than as a multinational world trader, as time goes on?

Dr. Crispo: I would say we are already there, at 80 per cent. If we go to 90, is it going to change things that much?

Mr. Neumann: Then why do we need this deal? If we are already making progress in reducing American tariffs through multilateral trade negotiations, and if we can be perceived in the world as somewhat independent and have our own policies, why take the risk?

Dr. Crispo: Because tariffs are not the issue any more; nontariff barriers are the issue. The General Agreement on Tariffs and Trade has done well on tariffs, it has not done well on nontariff barriers. If you want to sit here and wait four to five years and gamble that GATT goes somewhere and risk all that legislation in the United States and gutting the auto pact and the 300 industry-specific protectionist bills that are in the US Congress, be my guest. You are risking this province and this country.

Mr. Neumann: One thing I admire about your stand is that you espouse that Canadians should have confidence in themselves and that we can really do well under this deal, but I think that same argument could be made to reject the deal. Why link ourselves into a trading bloc? Why not view ourselves on a world basis and have confidence that we can trade in the world?

There are other experts around, and I do not know too much about David Morris's background, but an article here is headlined, "United States Starts Looking like a Third-World Country." There are problems in the United States. Certainly, coming from the city of Brantford, I know that a community needs diversity. It cannot be dependent on one industry, and its long-term strength is in diversity. I think the same thing can be said for Canada on a world basis. We are linking ourselves far too much into being dependent upon the Americans for our exports.

Dr. Crispo: We are already there, but let us--

Mr. Neumann: That is the road you want to take us farther on.

Dr. Crispo: I think that is a transitional stage in anticipation of a GATT breakthrough and would give us the scale and the volume to be more competitive on a world basis. But two points that you made--sinking star--we are getting this all the time. Reagan has put the United States in dire economic straits, temporarily, because of that massive federal deficit. Everything that has gone wrong there can be traced back to that.

To argue that the United States is a sinking star is, I think, very short-term. The United States still has massive inflows of capital, because it is considered the safest haven for capital in the world. Its dollar has made it extremely competitive. As of next year, the US starts shipping Hondas to Japan. It is already shipping steel to Japan. Look at investment and exports in the United States. They are turning that country around. I do not say they do not have problems.

Even if you assume it is a sinking star, 250 million people, with their average income, is a phenomenal market for the foreseeable future.

I hate to repeat myself, but you talk about the world. I am for GATT, I want GATT to work, but I want this to work before GATT works so that we cut

our teeth on the American market and learn to compete there before we have to compete with the Japans, the Koreas, the Taiwans, the ones that can really wipe us out.

Mr. Neumann: We had Mitchell Sharp before us on Monday, and he felt that this deal was a big mistake because it was negotiated out of fear of protectionism. He feels that developing trading blocs is contrary to freer world trade and that this deal will make it harder to develop freer world trade, not easier, as you contend. What is your reaction to that?

Dr. Crispo: I do not think we did it just because of US protectionism; I explained that point earlier. I think it is a hedge against the possibility of GATT breaking down. There is a risk in this world that the whole trading system is going to break down. I am really fearful of this.

Mr. Neumann: Will this not help break it down?

Dr. Crispo: No. This is an insurance policy, if it does break down, but it is a spur.

Mr. Neumann: We will become inward-looking North Americans rather than--

Mr. Chairman: I think, if I may interrupt, we are getting into a very basic philosophical argument and I do not think, Mr. Neumann, you are going to convince Dr. Crispo that Mr. Sharp is right. We do not want to get too far behind. I want to give Mr. Ferraro a very, very quick chance at him. OK?

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Mr. Ferraro: That may be an impossibility, but I want to ask Professor Crispo--

Dr. Crispo: What may be an impossibility? I missed that.

Mr. Ferraro: To be very brief.

Professor, you teach, and I enjoy your presentations, even if I do not agree with everything you say. Some of it--

Dr. Crispo: Oh, oh. Something dirty is coming. I can tell.

Mr. Ferraro: No. I want to take you out of the realm of economics for a minute, because for every John Crispo or David Peterson or Rick Ferraro or Brian Mulroney, there is somebody who is going to say something different. Quite frankly, I feel sorry for the average Canadian, because it is an extremely difficult subject to understand significantly.

What I want to talk to you about is related to what you are teaching. It is, to some degree, government relations; and that is motives. My colleague Mr. Nixon indicated you may have touched on it earlier and I apologize for being late. Let me set the table a little bit here. Let us assume that David Peterson and Joe Ghiz are the only two premiers who are saying this is a bad deal; not that they are anti-free trade, but that this is a bad deal.

Dr. Crispo: Yes.

Mr. Ferraro: When you take that, in light of the fact, in the crassest political terms, that here is a guy, and I am one of the merry band of 94, who has four and a half years to play with, who you certainly cannot say has ambitions to be--if he does, I do not know about it, but he is not exactly setting the stage to become Prime Minister of Canada by saying this is a rotten deal, and who has on occasion, I think, proved he is a strong nationalist, from supporting Meech Lake to stroking the Prime Minister when he was in England, and I think for good reason.

I guess what I am trying to ask you, and maybe you can elaborate a little bit, knowing full well that the expertise we pay for as a government has said this is a bad deal, and Mulroney's expertise, which he pays for, by and large say it is a good deal, that Ontario is going to be the biggest winner or the biggest loser, that we have a deficit with the United States, and setting aside the fact that, if nothing else, from your point of view, you have a good, lively debate as a result of this opposition to the deal, which I think is healthy when one considers the magnitude of the deal, could you enlighten me as to what his motives would be, save and except that he honestly believes it is a bad deal? To do other than what he is doing is tantamount to saying, "John Crispo, I want you to go out there and say this is a rotten deal."

Dr. Crispo: Are you talking about Peterson?

Mr. Ferraro: Yes.

Dr. Crispo: I hope I fully understood the question.

Mr. Ferraro: I am trying to figure out motives.

Dr. Crispo: All right, motives. Let me start by picking up your original theme, that this is a very complicated deal. I just want to touch on this because I intended to say it at the end and I suspect I am at the end, so I will get it in now.

One of the things that disturbs me most about this whole thing has been the role of the media. Why did not The Journal, for two weeks running, get the people who negotiated the deal to explain it factually: this is what it means? Then let the others knock it, if they want; give them the same amount of time. I do not care.

The media, I think, has been so irresponsible on this thing. They call themselves the fifth estate. They are not even entitled to call themselves the 99th estate. You watch the coverage of these hearings. This is the last point I will make. When their favourites come in, the left-wing nationalists, they get all sorts of coverage. When the others come in, like Dr. Lipsey or myself, there is practically no coverage. It has been so biased since day one, so prejudiced, so dishonest, so contrary to any ethics of journalism, that it is a disgrace.

Mr. Neumann: Come on. That is crap.

Dr. Crispo: It is not crap. You can say it is crap. You would say it is crap because you are getting your own way; in the media, I mean. Now with Peterson, I do not understand what his motivation is. I am convinced we met most of his conditions. I like David. I thought, at one time, that it was crass politics, because he was in an election campaign. He lost the debate--I did not think he lost that badly--and his advisers said, "Hey, you're in

trouble." He was not in trouble. He was going to win anyway. They said: "Look, you've been doing well questioning free trade. Why don't you condemn the damned thing? It's going down the tubes, anyway." If you look at the timing, it looked as if we were going down the tubes.

So why not take a chance? It was selling well, in the backwoods especially, with the poultry guys, so it is good stuff to knock the Tories out of rural Ontario as well as the city. So he comes out against it. Then we get a deal and he stays against it. Then we get the final deal and it gets improved. He still stays against it. I do not know why.

Mr. Ferraro: It would have been a lot easier to accept it after the election.

Dr. Crispo: No, let me just finish. I have two more points to make, then you can cut me off. I think it is partially political because Turner is dead if he goes offside. He is dead in the water. There is that and they are close and he owes Turner for some things.

Finally, you asked me about the expertise on both sides. You can get economists to say anything; that is the implication. I am afraid I have to grant you that, because everybody is an economist these days. Even the Globe and Mail picks up people who have no economic credentials whatsoever and calls them economists.

I would say it is far more important for both governments to look at what industry is saying. It is industry that has to stand the test of this deal, and it is virtually unanimous. All the macrogroups are for it. Eighty per cent of the trade associations that have taken a position are pro this deal.

The Prime Minister has a credibility problem with the Canadian public. I acknowledge that. I am telling you, David Peterson has a growing credibility problem with Ontario industry. They just cannot understand, when they know their future depends on ready and secure access to the United States and they favour this deal strongly, why he is against it.

And you want me to explain it? I cannot.

Mr. Chairman: With that, I think we will have to go on. I understand, Mr. Haggerty, but we are well over our time.

Mr. Haggerty: I just have one question, which might clear the air.

Mr. Chairman: Perhaps you can ask Mr. Crispo in the hall.

Mr. Haggerty: I would sooner have it here. There is no television here, but at least it will go on Hansard.

Mr. Chairman: Perhaps you can make it as a statement later.

Mr. Haggerty: He has no doubt read the article in the Toronto Star on March 5, where it says "Gotlieb Attacks US Trade Legislation. Bill Before Congress Seen as Threat to Free Trade Pact, Envoy Says." You have probably read the list of them. Have you not?

Dr. Crispo: I think I have. I do not recall.

Mr. Haggerty: It goes on to say, "Canadian approval of the free trade agreement would be jeopardized if Congress approves sweeping new trade measures that would undermine the pact auto, Ottawa warned yesterday."

Gotlieb talks about what is wrong with them. It goes on to say, "Among the long list of proposals singled out as unacceptable by the envoy were: a provision aimed at making it easier for US industries to win protection from foreign imports; a proposal to force foreign trading partners to open their markets in specific sectors, such as telecommunications, or face retaliation; extension of a US export subsidy program designed to boost agricultural sales abroad."

That is within the omnibus trade bill, we know, and there are sections in there which say the most favoured trading nation--

Mr. Chairman: Your question?

Mr. Haggerty: Based upon what an expert has said in this particular area--he has been dealing with it all along--would you support free trade on that basis? He has flagged about six different areas.

Dr. Crispo: I did read the article and I agree with Gotlieb. I have said that some of those things are fundamentally incompatible with the free trade agreement. It would be ridiculous of Canada to sign a deal that was a companion piece with that thing.

Mr. Haggerty: That is an area that David Peterson has some fear about, that omnibus trade bill.

Dr. Crispo: That is a new concern.

Mr. Chairman: I think we have heard a fair amount of comment on Peterson's policies from Mr. Crispo's perspective. This has been a very exciting event, as it always is when you appear in front of this committee or before any audience.

Dr. Crispo: The only people who do not agree with you are in the media.

Mr. Chairman: I think there are just a couple of things I should point out to you. First, we have invited the Trade Negotiations Office to come and appear before us and it has turned us down, so it may not be the media's fault that they do not get all the coverage you think they should get.

Dr. Crispo: If I were them, I would not have turned you down.

Mr. Chairman: Second, you should be aware that I was at an American Bar Association conference recently where Ron Atkey, who is good Conservative, informed us and American trade lawyers that they do have a foreign investment review agency in the state of Ohio that will be exempted, in his view, from this agreement. I just give you that information. You might wish to consult with him.

Dr. Crispo: That is a real issue. Just as our provinces are a problem, so are their states.

Mr. Chairman: Yes. We obviously had a good discussion. We wish we could have had more time.

Dr. Crispo: I enjoyed it. You asked good questions, except for the poultry guy here.

Mr. Chairman: Thank you very much. We could have asked some interesting grape questions too, I think.

Dr. Crispo: He should have been in dairy.

Interjections.

Mr. Chairman: In keeping with the culture shock that this committee is constantly dealing with, we are now going to entertain a submission from the Ontario Public Service Employees Union.

Dr. Crispo: That should be a contrasting presentation. Don't go to sleep, now.

Mr. Chairman: We have Sean Usher, director of special operations, and Lukin Robinson, research department. We have their brief in front of us.

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Mr. Mackenzie: I wonder, Mr. Chairman, if before the brief is presented and commented on by the Ontario Public Service Employees Union, we could have Mr. Usher and Mr. Robinson give us their academic qualifications.

Mr. Chairman: I mentioned to Mr. McLellan, when one comment was made with regard to, I think, jobs lost or gained, that there might be a difference of opinion in the back of the room, where Mr. Robinson was sitting. But please go ahead, give us your academic qualifications and then lead us through your brief.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

Mr. Usher: In the light of Mr. Crispo's response, I suppose it is appropriate. I too am an economist by training and profession. Further, I have a degree in horticulture and another one in agricultural science, a post-graduate degree from London in business administration, 10 years' experience as an academic on the faculty in Dublin and London, England, and 10 years with the Ontario Ministry of Agriculture and Food, during which time I spent a lot of time and research on international commodity marketing. Yes, I am older than I look. I have been with OPSEU in my current position for the past eight years as director of research, education and so on.

Mr. Robinson: I went to the University of Geneva in Switzerland, where I got a degree in economics. I did not go any further in post-graduate education because the war came along and before very long I was in uniform. Since the end of the Second World War, I have had a number of professional jobs, mostly as an economist. As well as doing statistics and population studies, I worked for two years with the United Nations. I have worked in a number of other fields, including trade union research, for a great many years since then.

Mr. Mackenzie: Mr. Chairman, I advise people here to compare the transcript of the academic qualifications of the previous speaker as against the two who are now before us.

Mr. Usher: Mr. Chairman and members of the the committee, I am

appearing today on behalf of the president of OPSEU, who appeared before the cabinet subcommittee on free trade previously with a similar presentation and who unavoidably could not be here today. We welcome the opportunity to present our views to you today on the Canada-United States trade deal.

We believe that the harm the agreement will do the public sector is no less than the harm to the private sector, both directly and indirectly. For the record, we represent over 90,000 public sector employees in Ontario, of whom about 65,000 are directly employed by the provincial government. The other 25,000 work in various public sector agencies and institutions involved in education, health and social services. Fifty-four per cent of our members are women. We have a vital stake in what happens to the public sector in this province and are no less concerned about what happens in the private sector.

Our submission today is in two parts: first, a statement dealing with the contents and consequences of the agreement; and second, a study, which our union prepared a year ago, that deals in some detail with the effects, as we then anticipated them, of free trade on the public sector. We invite you to examine the study with care. I do not intend to read our presentation completely to you. I will make references to it, but I ask if it is possible to include this in the Hansard record as printed. With that assurance from the chairperson, we will make reference to it.

On pages 2, 3, 4 and 5, you will see references to where the points that Mr. Peterson made during his election campaign are examined in relation to the deal.

Page 6: It is because the elements of the agreement concluded in October so clearly fell short of the conditions stated by the Premier that the cabinet established the subcommittee on free trade. The subcommittee held public hearings, as you know, from October 13 to November 23. The subcommittee's report on the public hearings, recently issued, provides an evenhanded summary of the arguments it heard for and against.

The subcommittee report also notes that the legal text of the agreement, released in December, changed the elements in a number of significant ways. It also left many questions unanswered. It was for this reason that the subcommittee recommended, "...that the Canada-United States free trade agreement, together with the public briefs and transcripts of testimony presented to the subcommittee, be referred to the standing committee on finance and economic affairs for its consideration and recommendations."

It is, by now, no news to members of your committee that opinions on the key aspects of the agreement are sharply divided. What seems to us astonishing in reading the cabinet subcommittee report as well as a good many briefs from both sides is the way supporters manage to see merit in the agreement where there is little or none, to overlook or deny faults and weaknesses where these nevertheless stare them in the face.

This is so with respect to each of the six conditions stated by the Premier (Mr. Peterson). It is so with respect to the US trade deficit and what it implies for Canada's trade surplus. It is so with respect to Canada's trade policy, with respect to the scope for implementing an industrial policy and with respect to the role of the public sector in relation to the private sector.

In these respects, the agreement's supporters see no loss of national sovereignty because they are fundamentally opposed to the exercise of national

sovereignty in any case. The agreement's provisions conform with their overall outlook. The opponents of the agreement see things differently. We ask, "What kind of country and what kind of society do we want Canada to be?" And we answer, "Not the kind the agreement will compel us to become."

It is also because the agreement so clearly falls short of the conditions stated by the Premier, because it fails to deliver what was promised and will instead deliver a multitude of unwanted and pernicious consequences, that the Legislature adopted a resolution condemning the agreement. We agree with the reasons stated in the resolution. Unfortunately, the resolution seems to us to fall short on action.

Given the election results, we consider it incumbent on the government, the Legislature and the Premier to pursue with vigour all possible measures in opposition to the agreement as are within the province's jurisdiction and, on a missionary basis, outside it. You have given your word to the people of Ontario. They have given you their confidence and votes in return.

The free trade agreement is not only about trade, it covers energy, services, finance, investment and government procurement. It limits the ability of the federal as well as the provincial governments to formulate and implement policy in these and other fields.

On the other hand, the agreement does not guarantee secure access for Canadian producers to the United States market, although such access was said to be the essential object of the negotiations.

The agreement will profoundly alter the relationship between the private and public sectors of our economy. It will also profoundly alter the constitutional division of powers between the federal and the provincial governments. Power will be removed from both levels of government. Much of this power will be transferred to so-called market forces, which is, of course, a euphemism for Canadian-owned as well as for US-owned business. Some of the power will also be transferred to the United States where it will be shared between business and the government, intent on ensuring the utmost enforcement of the agreement to their advantage.

The Canada-United States trade commission and the binational dispute settlement panels are merely fig-leaves to cover this transfer and will put Canadians in the position of co-enforcers. The agreement is immeasurably hostile to Canada's national identity, sovereignty and independence.

It is important to understand why the free trade agreement is so bad for Canada and Ontario and why it opens the door to an unprecedented assault on our economy. The decisive factor which governed the negotiations from the outset has been the enormous worldwide trade deficit of the United States and the effects this deficit has had on the US economy. While the US has had a trade deficit, other countries, including Canada, have had a trade surplus. Our trade surplus with the US was \$20.5 billion in 1985 and was at an annual rate of \$19 billion in the first nine months of last year. The 1986 decline appears for the time being to have levelled off.

From the turn of the century until 1970, the United States always had a trade surplus, but in 1971 it had a trade deficit. The US dollar was devalued in terms of gold and the currencies of other trading countries, and harsh protectionist measures were taken against US imports from these countries, including Canada. Nixonomics preceded Reaganomics.

Neither devaluation nor protectionism have been able to turn the US trade deficit around. Instead, since 1971, the United States has had a trade surplus in only two of 17 years, 1973 and 1975. Between 1977 and 1982, the trade deficit averaged \$30.4 billion, 13 times greater than the first deficit in 1971. It then doubled in 1983 and doubled again in 1985 and was at an annual rate of US\$156 billion in the first nine months of last year.

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Most of the increase has been in manufactured goods. The effects on the US economy have been devastating. The trade deficit has played havoc with US manufacturing industries, some of which, such as steel and auto, have formed the bone and marrow of traditional US economic strength. Hundreds of thousands of jobs have been lost and average wages in industry have fallen. Formerly thriving industrial communities have become ghost towns. The consequences should serve as a warning of what a flood of imports from the US would do to us.

The trade deficit has also turned the United States from the largest international lender and creditor nation into the largest international borrower and debtor. Hence, to the excess of imports over exports of goods and services, there is now added a rising outflow of interest and dividends which the US has to pay to other countries. Money will have to be borrowed abroad for this too. Canadians are familiar with this problem, which for us includes a large net outflow of interest and dividend payments to the United States. The US predicament is not going to make the problem any less difficult for us to cope with, nor is the free trade agreement.

Given these facts, the overriding aim of US trade policy is to reduce its trade deficit by whatever means it can find. This involves in particular reducing our trade surplus with the United States. Canada, after all, contributes to the US trade deficit more than any other country except Japan.

There are, of course, two ways of reducing a trade deficit. One way is to reduce imports; the other way is to increase exports. From Canada's point of view, the first means to reduce our exports to the United States; the second means to increase our imports from the US. The agreement is supposed to preclude the former. Both sides agree that it is intended to encourage the latter.

The agreement's supporters emphasize what they believe to be the favourable aspects of increasing Canada's exports to the US. They claim that increases will be possible not only in raw and fabricated materials, but also in manufactured goods. The United States has usually been willing to take our natural resources, including energy, and no doubt they will continue to do so, but no one should forget the recent measures against fish, pork, shakes and shingles, softwood lumber and potash.

I want to move now to consideration of services. Services are a growing part of modern economies. They account for 69 per cent of Canada's gross domestic product and for two thirds of the growth in gross domestic product during the past 10 years. Business supplies almost three quarters of these services and the public sector, broadly defined, the balance.

Services are even more important in terms of employment. They provide 71 per cent of all jobs in Canada; 95 per cent of all the new jobs created since 1976 have been in services. Whereas in the production of goods less than one quarter of the job holders are women, more than half of all the jobs in

services are held by women. In the public sector in particular--in government, in education, in health and social services--the majority of jobs are held by women.

From the point of view of international trade, services are important mainly because of their relationship to the production of goods. The efficient production and sale of goods requires the best in management, marketing, financing, research and development and long-term strategic planning. These services constitute what may be called the cultural infrastructure of an industrial economy and of a country's ability to compete internationally.

These services are crucial to Canada's economic development, notably in high tech, and consequently to our ability to stand on our own two feet. Whoever--along with investment--supplies and controls these services will largely control the production and distribution of goods.

It is thus not surprising that chapter 14 of the agreement, "Services," and chapter 16, "Investment," are closely linked. The introductory note to chapter 14 states:

"It is no longer possible to talk about free trade in goods without talking about free trade in services because trade in services is increasingly mingled with the production, sale, distribution and service of goods...and necessary complements in organizing trade." That is on page 194.

What this means is that a country wishing to trade effectively with others in goods must at the same time develop its capacity to trade with them in services. If the United States can assert its ascendancy in services internationally, and in Canada to begin with, it will be able to increase its influence over the production and distribution of goods.

The converse of this proposition is also true. By holding on to and, if possible, extending the positions we now have in the supply of services, Canada will be better able to trade internationally on its own terms rather than on terms dictated by the United States. An independent and purposeful public sector is in this respect vital.

Annex 1408 of chapter 14 of the agreement gives a list of the services covered by the agreement. This is followed by a schedule in which the services covered are listed according to their number in the standard industrial classification on page 204. The list and the schedule are extremely difficult to reconcile. In some cases they do not even agree.

More significant is the way this twofold presentation obscures the range of services covered. To illustrate this with respect to the services with which OPSEU is especially concerned, the following services are listed in annex 1408 under the general heading of "Commercial Services." Some of them can be identified by their SIC number and others cannot.

What is striking about this partial list is that all of the services enumerated fall within or infringe upon the public sector. The agreement will thus operate to erode the public sector and promote privatization. We will talk a bit about that later.

Given the fact that OPSEU represents public sector employees, you may wonder why we have spent so much time in the brief analysing the trade aspects of the agreement, since their main impact will be on the private sector. The reason is, of course, that anything which hurts the private sector will hurt the public sector.

I would like now to discuss the way in which the agreement will attack and pervert the public sector. The agreement will compel the federal and provincial governments to imitate United States tax and spending policies. This means lowering corporation taxes and taxes on the wealthy, higher taxes on consumers and less spending on social programs.

It will compel changes in labour legislation and in the health and safety requirements on the job in order to conform with the lower standards prevailing in the United States. It will hamper the efforts towards pay equity. It will strengthen the hostility towards unions of the federal government and of several provincial governments as well and encourage their union-busting actions. It will compel government programs to be based on so-called commercial considerations so as to avoid countervailing duties against Canadian exports on the ground that they are subsidized.

It will prohibit preference to local, provincial or national suppliers in government purchases of goods and services, and increase contracting out and privatization, in which American companies and their Canadian subsidiaries will be invited to compete with Canadian companies.

That is the hidden agenda of free trade. It aims to make Canada part of a level playing field with the United States at the level of the lowest common denominator. But the playing field is much warmer at the southern end than at the northern end. This, together with lower wages and weak trade unions, gives their players an advantage which tilts the field in their favour.

A word about free trade and harmonizing government policy. We are constantly being told that in order to hold their own in international trade, Canadian producers must be competitive. Competitiveness is the current watchword. All trading nations want to be competitive, which means that all of them want their costs to be lower than those anywhere else. As competition intensifies, business clamours for government restraint, less spending, lower taxes and suitable incentives. Government revenues and expenditures are, of course, enormously important to business, and they can be tilted either in favour of business or, in the business view, against it.

What is above all significant about government policies under the Reagan administration is that they have, by any liberal or progressive standard, been tilted the wrong way, and business would like the same thing to happen in Canada. With free trade, the pressure on government for this to happen will be even greater than it already is. The agreement defines "harmonization" as making identical, on page 59. The agreement will harmonize government policies in Canada with those in the United States.

That is why our study examines what the Reagan administration has done to the public sector in the United States. It looks at labour, health care, social security and welfare, women, taxes and spending. The overall result of the Reagan administration's policies has been to redistribute income the wrong way, up instead of down. The government has been taking money away from the poor and giving it to business and the rich.

We have been examining Minister of Finance Wilson's proposals for tax reform and find that they conform to this pattern. We are not alone in reaching that conclusion. We have sought to document this in a brief previously submitted to your committee, Chairman Cooke.

Not a few of our free traders have been doing their best to imitate Reagan's policies in Canada. They think free trade will help them. They should remember President Kennedy's warning, "If a free society cannot help the many who are poor, it cannot save the few who are rich."

Countervailing duties: The study next deals with countervailing duties against Canadian imports. We have quoted article 1902 of the agreement, which shows that the application of countervailing duties will continue as before. As you know, US producers who are up against stiff competition from Canadian exports can complain to the Department of Commerce that the Canadian producers are being subsidized by the federal and/or provincial government.

In its investigation, the International Trade Administration of the US Department of Commerce examines all federal and provincial government programs which could conceivably provide a subsidy. It does not, however, investigate whether US producers may be receiving equal or even greater subsidies. US government programs are outside its terms of reference. If the ITA concludes that subsidies to Canadian exporters are being given, and if it also concludes that US producers are suffering material injury because of Canadian exports, a countervailing duty equal to the alleged subsidy is imposed.

Every possible government program is investigated, and the percentage subsidy which each program supposedly provides is calculated to three decimal places.

If you have not already done so, I strongly urge you to read some of the decisions of the International Trade Administration of the US Department of Commerce. They are printed in the United States Federal Register, which is available at your legislative library, and they are an eye-opener.

On page 35, the fear that free trade puts many government programs at risk is therefore justified, and there is nothing in the trade agreement to allay this fear. On the contrary, in bargaining over what the new system of rules will define as a subsidy, there is no telling what the two sides will agree to. Canada, having already given up so much, will be negotiating from a position of weakness.

We must expect the Canadian government to be cajoled and cudgelled into increasing acceptance of US ideas as to what constitutes a subsidy, in other words, what is and what is not a proper function of government in industrial policy, regional development, job creation, redistributive equity and so on.

The agreement does not guarantee Canadian access to the US market and it does not protect government programs against the threat of countervailing duties. On the contrary, to avoid this threat government programs, as the ITA has repeatedly declared, must be based on commercial considerations. It goes without saying that many of our government programs have been implemented and are valued for the very reason that they are not so based. By their very nature, they cannot be.

I want to turn now to consideration, on page 40, of contracting out and privatization, a subject very near and dear to the heart of the president of the Ontario Public Service Employees Union. Services provided to government are one thing; services provided by government to the public are another. If the impact of the agreement on the former is unclear, its impact on the latter is not. Services provided by the government to the public are separate and distinct from government procurement. If these services are contracted out, this does not constitute government procurement.

Privatization of government services may likewise have nothing to do with procurement. Neither article 1402.9 nor the exclusions specified in article 1601.2 would apply, whereas the requirement of "treatment no less favourable" under article 1402 and of national treatment under article 1602 would apply. The agreement therefore threatens the public sector by way of contracting out, privatization and the invasion of US services in competition with Canadian firms.

Management by US corporations of institutions and services belonging in the public sector, such as those we enumerate on page 23 of this brief, will cause them to abandon service to the public and turn to the drive for profit as their primary aim and reason for being. It will be impossible to preserve our national health system and social services if they are going to be run on the basis of business efficiency and attention focused on the bottom line. In the United States, even some prisons have been turned over to private enterprise.

I draw your attention to a study prepared by Mr. Auer of the Economic Council of Canada on Canadian hospital costs and productivity, published by Supply and Services Canada in 1987, to show you that Canadian thinking has very much gone along the lines that the US has in relation to health and social services. It refers to individuals who have health difficulties as throughputs, inputs, outputs and so on, a truly dehumanizing effect, one which we fear very much will be galvanized by the free trade deal.

Contracting out and privatization have become very popular with some people. Contracting out is a way of saving money by attacking the wages and working conditions of public sector employees. It gives private enterprise and profit-making a share of the pie, while lowering the standard of service to the public.

The privatization of crown corporations is likewise favoured as a way of increasing government revenues and reducing deficits. More important, it appeals to our free marketers as an admirable way of shrinking the public sector, getting government off the backs of the people, freeing free enterprise and so on. These are among the cherished notions of Reaganomics, whose followers are intent on applying them in Canada. They have already made some headway. The trade agreement will give them new strength and new allies to make still more. Public sector as well as private sector employees will suffer, as will the general public.

It is from the intrusion of the private sector into areas which have traditionally belonged to the public sector--and which, in our view, should remain there--that most of the pressure for privatization comes. Because the agreement provides for unimpeded access by US service firms to the Canadian market and for the expansion of US investment in service firms operating in Canada, it will intensify this pressure.

Canadian firms operating in the United States can never have anything like the clout with US governments that US firms have and will continue to have in Canada. Canadian firms will be unable to influence the size and distribution of government purchases from business, nor the extent of contracting out and privatization.

The US political process and business pressure will decide what these will be. Canadians will, at most, have a minor part in the supporting cast. The position of US firms in Canada will be quite different. We are and will

remain a scarcely audible frog in a very large pond, whereas US firms will become a larger and larger frog in a much smaller one. Moreover, in backing up their demands, US firms not only will rely on their own strength but will enlist the forceful support of their government.

Canadian history offers many examples of what this support can do to our detriment. American domination of film distribution and the stunted opportunities given to Canadian producers to have their films shown in our theatres and on TV have been a sore point for many years. The US government has repeatedly intervened to perpetuate this monopoly.

The notorious drug legislation is another example of arm twisting by the US government in favour of US firms with subsidiaries in Canada. In few sectors are these subsidiaries so predominant. We pay for these exactions out of our individual pocketbooks, while at the same time they impoverish our social and national identity.

The agreement will tie our economy more and more closely to the economy of a country in which the role of government is quite different from what it is in Canada, in which the prevailing ideology on what this role should be is also quite different from ours, and in which the Reagan administration has taken enormous backward steps in government services and programs during its seven years in office.

Far from being able to continue to move forward, we will have as a result of the agreement the utmost difficulty in maintaining what we have gained during many years of effort and struggle. It seems almost inevitable that we will be pushed back.

Our conclusion, which we have stated many times since the negotiations for the agreement began, is clear. Free trade with the United States threatens the public sector and the public sector workers in Canada just as much as it threatens the private sector. The agreement confirms our worst fears. We are against it.

I want to draw your attention to the quotes--I will not go into them--by Felix Rohatyn, an eminent Wall Street banker on pages 50, 51 and 52.

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It is by now a commonplace to say that free trade aims to make Canada part of a level playing field with the United States. What we want to know is who and what are going to be levelled--public sector wages, working conditions, collective bargaining rights, social security and pensions and all the other government programs which business and its propagandists are constantly telling us are too expensive and must be cut back.

We are opposed to having our social legislation and social security programs adjusted to conform to what the Reagan administration has done to them in the United States. We do not want a system of taxes and spending in Canada which will imitate and be competitive with the grossly lopsided and inequitable system in the US. We do not want the public sector in Canada to become a mirror image of what it is under Reagan or of what future administrations make of it. These are matters which we want to be able to decide for ourselves.

Canadians do not want a society in which the marketplace and the dollar sign are totally supreme and in which the overriding criterion in government

policy is whether it increases or decreases business profits. We do not want a society in which the government promotes the unequal distribution of income, taking from the poor and giving to the rich, while for the rest it strives to confine itself to the leanest and meanest minimum, leaving everything to be decided by private enterprise. In such a society, public needs from which no profit can be made are neglected and those who cannot pay are left to fend for themselves as best they can. We want a society in which no one is left out.

We will not get it with free trade. In an increasingly interdependent world, no country is completely free to implement its own agenda without regard to what is happening elsewhere, but we should preserve as much of this freedom as we can. The agreement surrenders a large part of it and is for that reason far from free.

Many Canadians who support the agreement deny that any surrender is involved. This seems to us a self-induced form of blindness, but there are other equally ardent supporters who welcome the surrender. This enthusiasm for self-mutilation and abasement defies understanding.

Donald Macdonald is among the leading advocates of surrender. As he sees it, the supporters of free trade are positive, bold and forward-looking, whereas against it are the negative, the cowardly, the backward-looking. He says, "I don't see Canada as a short of sheltered workshop for the inefficient, the incompetent or the less than capable."

Mr. Macdonald must know that the entire trade union movement is against the agreement. His remarks thus give us a good idea of what he thinks of himself, on the one hand, and of unions, on the other. Attacks on unions from the affluent security of corporate boardrooms are, of course, nothing new. What is significant is the way the prospect of free trade is used to step up the attacks. Unions are seen as the roadblocks to efficiency, protecting the incompetent or the less than capable. Free trade is therefore a means of weakening them.

This view is in line with the report of the royal commission of which Mr. Macdonald was chairman. In all of the 2,000 pages of the commission's report, there is not a single favourable reference to unions and many are unfavourable. The lines for and against free trade are clearly drawn.

As happened in Sir John A. Macdonald's time and again in Sir Wilfrid Laurier's, Canadians are engaged in a great debate on the future of the country. The responsibility of the government of Ontario to state its position and give some coherence and leadership to the debate is immense. The mandate for the electors is clear, nor is there any doubt as to the trade union movement's position, and that includes the Ontario Public Service Employees Union.

Mr. Chairman: We appreciate that you have a lot to say and you have given us the highlights of your brief. Mr. Nixon has a question.

Mr. J. B. Nixon: I have a series of questions, gentlemen, just reasonably for our clarification more than anything else.

On page 8 of your presentation, you make the statement, "Power will be removed from both levels of government." I want you to be specific about how that occurs.

Mr. Robinson: If market forces have more power under the agreement, because of the increased interdependence, than they have now, then governments will be able to do less. If you look at what the agreement says about energy, there are all kinds of things that we are not allowed to do under energy. If you look at what it says under culture, culture is supposedly exempt, but it says that if any measure which Canada takes to protect culture has an adverse impact on the United States, then the United States can take retaliatory action affecting a different sector of the economy. Clearly, that will limit, in practice, the freedom of action of the United States and so on and so forth. Those are just a few examples.

Mr. J. B. Nixon: Are you suggesting that the actual power of Canada as a sovereign state is being reduced or derogated from?

Mr. Robinson: Yes, that is right.

Mr. J. B. Nixon: OK.

Mr. Robinson: Not explicitly. It is not stated anywhere that this is one of the purposes of the agreement.

Mr. J. B. Nixon: I realize it is a conclusion you are drawing.

Mr. Robinson: But explicitly in a number of the provisions of the agreement and implicitly by the results. I mean health care is another thing.

Mr. J. B. Nixon: On page 22 you state, or I think you are suggesting that, what Canada should be doing, in terms of developing the service sector of its economy, is extending the positions we now have in the supply of services. What do you mean by that?

Mr. Robinson: Canadian service firms now have a certain position in the economy. If the result of the agreement is to weaken that position, the argument is that, in the light of the quotation from the introductory note in the agreement itself, that will have an influence. That will also weaken the influence of Canadians firms in the production of goods.

Mr. J. B. Nixon: How does it weaken the sector of our economy which is engaged in service and service delivery?

Mr. Robinson: What they are saying is, and what is true is, that the provision of services is more and more intimately related to the provision of goods. If Canadians provide services, that will help Canadians to provide goods. If Americans provide services, they will not necessarily be interested in Canadians producing the goods, especially for export for international trade; they will be interested in promoting American production. Whether that production happens to be located in Canada or not will be a matter of indifference.

Mr. J. B. Nixon: This is a matter of belief on your part.

Mr. Robinson: That is right.

Mr. J. B. Nixon: On page 29, you talk about the agreement compelling the federal and provincial governments to imitate US tax and spending policies, compelling changes in labour legislation. Again, if I can summarize, this is a matter of belief. I am not aware of anything in the agreement that specifically says they must do that.

Mr. Robinson: No, it is not explicit in the agreement.

Mr. J. B. Nixon: On page 31, you say, "The agreement defines harmonization as 'making identical.'" I am not trying to confuse the issue; I am trying to find that. In the copy of the agreement I have, which I borrowed from Mr. Haggerty, which is the blue one, page 59 is virtually blank. If you can tell me the section, it would be helpful. That is all.

Mr. Robinson: If I can find it. You are right. I will have to find that for you, but it could be page 49 or it could be 69.

Mr. J. B. Nixon: I think it would be useful because I would like to read that in context.

Mr. Robinson: Yes, OK. I will find it for you.

Mr. J. B. Nixon: I do have a couple more questions. I can proceed with those with you, Mr. Usher. On page 34, you refer to decisions of the International Trade Administration as evidence for your belief that the binational dispute resolution mechanism will have a bias, which it acquires from a body of case law under the ITA.

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Mr. Crispo was here. Implicit in what he was saying is that one of the benefits of this binational dispute resolution panel is that it takes out of the hands of the ITA the responsibility for making decisions. We have a new body which will apply existing law, in accordance with existing law. Do you have a comment on that?

Mr. Usher: Yes. There is no evidence to show that they will be in any way limited in their ability to take actions against Canadian imports.

Mr. J. B. Nixon: I agree with you there. I think it is a finer point than that. The ITA, as I understand it, is essentially replaced by the binational dispute panel, whatever it is called--

Mr. Robinson: No, that is not so.

Mr. J. B. Nixon: --as the ultimate dispute resolution.

Mr. Robinson: No. At the present time, if a Canadian does not like a judgement or a decision by the ITA, he has been able to take it to a US court, and the--

Mr. Ferraro: Or the General Agreement on Tariffs and Trade.

Mr. Robinson: Or the GATT. The mandate of the court is then to see whether the ITA has correctly interpreted US law in the decision that is being complained on. What the binational panel will do is take the place of the court in interpreting US law. Has the ITA followed US law or has it not? The binational panel does not in any way substitute for the ITA; it merely is a different semi-judicial reviewing body, whereas now there is a completely judicial but American reviewing body, namely, the courts.

Mr. Ferraro: May I have a supplementary on that?

Mr. J. B. Nixon: Sure. Let me just ask one question. Forgive my lack of understanding of how the proposed system will work. Would you care to comment on what Crispo said, that the binational panel will compel the ITA to apply the law independent of political imperatives?

Mr. Robinson: The question is whether the US courts have been deficient or ineffective in compelling the ITA to do so. In the hearings of the cabinet subcommittee, one of the witnesses was a lawyer, an American, who has acted for the Ontario government over the years in trade disputes. His evidence is somewhere on the record; I read it, so I know it is available.

He said that, if anything, in his opinion one of the disadvantages is that the binational panel may be political, split politically, if you will, in so far as the Canadians and the Americans disagree, but it will have a less judicial character than the courts. He also said, and he was quite emphatic about it, that he saw no evidence of pro-US prejudice in the way the courts have interpreted US law in cases which appeal to them because someone did not agree with what the ITA had done.

The other side of the coin, which the proponents have said, is that the procedure of the binational panels will be much quicker. That may be an advantage. But the notion that the binational panels are going to substitute themselves for the ITA is quite wrong.

Mr. Chairman: Do you have a supplementary, Mr. Ferraro?

Mr. Ferraro: When the appeal was made, Mr. Robinson and Mr. Usher, to either the courts or the GATT--and I agree that the dispute settlement mechanism is useful for forcing any change; you are saying, "Yes, you can do it according to the law or no you can't"--can you tell me your understanding in actions gone by? Have the courts, for example, ever said to the US, "You are going to have to change the law," or has the GATT, in any of its decisions as far as you understand it, said anything dramatically different from what the pro free trade people are saying about the dispute settlement mechanism?

Mr. Robinson: I am not sure I quite understand your question, but I do not think it is the courts' function to tell the ITA that they should change the law. I do not know enough about GATT, but from the little I know, I believe that if GATT thinks the law is contrary to GATT principles, it can say that and, in effect, tell the US to change the law.

Mr. Ferraro: That is exactly what I meant.

Mr. Robinson: The US can thumb its nose at them, which it very often does.

Mr. Ferraro: But the dispute settlement mechanism will not tell them to change the law.

Mr. Robinson: That is right. There is no question about that. It will not.

Mr. Ferraro: That is exactly the question. Thank you.

Mr. Robinson: By the way, that is page 89.

Mr. J. B. Nixon: Forgive me. I just want to take a look at it.

Mr. Usher: Bottom of the page.

Mr. Chairman: "'Harmonization' means making identical" is the definition for chapter 7.

Mr. J. B. Nixon: Thank you. On page 41, you put forward the proposition, "Privatization of government services may...have nothing to do with procurement." I agree with you. I think that is just a matter of definition. They are two different things, no doubt about that. As your conclusion in that paragraph, you say, "The agreement therefore threatens the public sector by way of contracting out, privatization and invasion of US services." I take it you get to that conclusion by reference to article 1601 and article 1402. I have taken a very quick look at articles 1402 and 1601 and, frankly, I do not understand how you get from your statement to your conclusion.

Mr. Robinson: The section on services seems to limit government procurement. The obligations with respect to government procurement under the services section include only the majority of the federal government departments, and it does not specify if in fact provincial and municipal governments are excluded.

Then there is a paragraph on page 199, paragraph 1402(9), which says, "No provision of this chapter shall be construed as imposing obligations or conferring rights upon either party with respect to government procurement or subsidies." Because of that paragraph it seems important to distinguish government procurement, which is the purchase of services by government from business, from the provision of services by government to the public, which can either be by government agencies or by private firms, depending on how the government decides.

But what the agreement provides is that in a whole series of service sectors, which either are now in the government sector or are close to the borderline, where private, American-owned firms have a right to provide these services, the government of Ontario cannot do anything about it--at least that is my understanding--if these service firms say, "We want to manage this hospital, and if you do not let us, we will complain, because you are not giving us national treatment."

Mr. J. B. Nixon: Which article is that?

Mr. Robinson: Article 1602, then, is very clear as to what "national treatment" means.

Mr. Usher: Page 233.

Mr. J. B. Nixon: I understand "national treatment." What I am trying to find is the list of service businesses you say will have national treatment and the right to establish businesses. They are in article--

Mr. Robinson: Everything that the investment article covers, all sectors which are not limited by those that are enumerated in article 14, has to be given national treatment. Those that are enumerated in the annex to article 1400 specifically have the right to enter fields which are part of the public sector.

Mr. J. B. Nixon: What you are saying is, because it is not explicitly dealt with by the agreement, therefore it must be open season.

Mr. Robinson: That is right.

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Mr. Mackenzie: I really have just one question. Once again, I think it is worth commenting on the extent of the brief and the extent of the arguments on the points, and worth putting on the record that it be compared with the brief and arguments that we have heard previously, in terms of the specific points, the issues raised, the answers to those issues and the rhetoric. I might say, with one possible exception, your rhetoric has been much more toned-down than what we heard previously, and I guess that is the cover of your brief where it says, "Traders or Traitors."

That leads into the question that I have because I really think, given the effect this can have, admitted in different ways by both critics and supporters of the agreement, that the Canadian people are entitled to a vote. There has not been a mandate on a change so fundamental in our country, and without the support of a vote of the Canadian people, as far as I am concerned, I have no disagreement with the title on your page. I think we are looking at some pretty treasonous activities in terms of the future of our country.

Is it the position of the Ontario Public Service Employees Union that there should be a vote on this issue before this agreement is finalized?

Mr. Usher: There is no question but that there should be. There should be the opportunity for full debate all across this country as to the effects of putting the free trade agreement into place. I think few people across the country have the same realization that we have in Ontario.

I have had the opportunity, in many of our provinces, of speaking on this issue, of seeing the free trade agreement as just another part of the philosophy espoused by people like Dr. Madsen Pirie--I have to be careful how I say that because I call him some other names at times--taking government completely out of the business of health, social services, education, corrections and so on, and completely running counter to the kind of country that people in my particular business grouping have fought for for a long time in terms of building what it is that we cherish here in Canada and what it is that has attracted an awful lot of people to Canada.

To stand by and look at the dismantling of this and the locking in of this system by something like this free trade agreement is very hard to take without at least recourse to an open debate and an election on the prospect of this in terms of its undermining, and I do not think I am overstating the question.

Mr. Mackenzie: I congratulate you on the work you have done, the marshalling of the arguments that you have made and the rational way in which you have made them as well.

Mr. Villeneuve: I thank you for your presentation. Yes, there are areas in it that are controversial, no doubt about it, and it is a matter of interpreting the FTA. I find it interesting that the Ontario Public Service Employees Union would comment on agriculture. I see on page 4, item 4, agriculture--

Mr. Neumann: They are Canadians.

Mr. Villeneuve: I did not dispute that at all. You say that this spells the end of the family farm. I have difficulty with that in that I believe long, hard bargaining occurred pertaining to the protection of supply managed commodities and I believe we are talking of export subsidies, not subsidies in general. We are talking export subsidies, and it is specified in article 701 and in article 401 and a number of others.

Could you explain why you feel this spells the end of the family farm?

Mr. Robinson: I think you have to distinguish between the specific provisions of the agreement relating to agriculture, about which there is some doubt, and the paragraph which is quoted on page 4, about which there is no doubt. Both parties declare in this agreement that their long-term objective is to get rid of all agricultural subsidies--100 per cent--not only subsidies relating to exports but all subsidies to agriculture, period; "the elimination of all subsidies which"--on principle, according to the free marketeers--"distort agricultural trade," and they undertake to work together to achieve this goal. To me that is absolutely unambiguous.

That the specific provisions of the agreement relating to agriculture do not go that far, you are right, I agree with that. But on the fact that this is where they want to go and they are using this as a thin end of a bloody dangerous wedge, there is no question at all. They say so.

Mr. Villeneuve: I believe the aim of the European Community also is to eliminate subsidies. However, God only knows when that will occur, and I can assure you that the governments at the federal and provincial levels, I would certainly hope, also recognize that this is indeed a fact of life.

Right now on the export of our surplus dairy products, for instance, we are living within that fact now. We export skim milk powder. The producer pays that export levy and there is no export subsidy. The dairy industry is subsidized, but not on its exports. We are told there is no change here.

Mr. Usher: Mr. Villeneuve, I bit my tongue in answering this question, because it happens to bite back into my field. I think that people in agriculture--and we have a lot of right to represent agriculture here because we represent the people in the Ministry of Agriculture and Food and in the research stations and the colleges--obviously have given a lot of thought to this particular process, but I think that people in agriculture should take a long deep breath about where things are going to go in the future with a free trade deal in terms of marketing boards, whether they are negotiating marketing boards or whether they are of any other kind.

Many of the things that marketing boards do to preserve the family farm and to provide our food here in Canada in as healthy a way as possible will be undermined by the notion from the United States that they provide an unfair advantage in terms of producing for our own country, never mind exports.

Mr. Villeneuve: You are aware that we have countervailed American corn. It is the first time the Americans were ever countervailed and they did not particularly like it, but they had to accept it. You are also aware that we have now on the import protected list all of the dairy products and poultry, two traditional exports the Americans have sent here.

You do not think this will work? Why would you say it does away with the family farm when indeed they are protected? I believe it is a status quo with what has occurred.

Mr. Usher: I think you should take a trip to the peninsula and you should take a trip down to the rich production areas of Ontario and ask the farmers there what they feel about the deal.

Mr. Villeneuve: I have, sir.

Mr. Usher: I believe you will find that dyed-in-the-wool people from your own party who would love to support everything that your party does will be at variance with you on free trade when it comes to the agreement. That is my sense, having been there in Essex, Kent and Elgin counties; that people are truly very fearful of the consequences of the free trade agreement from an agricultural point of view.

Mr. Villeneuve: All I can tell you, and this is a last comment, the value of our pool 1 quota and industrial quota went up very considerably last month. I believe there is a clear message here from the dairy industry, "Yes, we feel that the protective measures in place now are quite satisfactory."

I believe we will have to live with the snapback provision on fruit and vegetables, but I do believe that with the state-of-the-art technology that is in place, surely we have to be able to foresee five days of low prices, depressed prices, that would trigger the snapback.

I have confidence, and I believe many of the people involved directly in agriculture feel confident that this is indeed as good a deal as could have been struck, and the status quo is something that is no longer.

Mr. Mackenzie: I have not heard that argument from one of them.

Mr. Chairman: Just as a point that I perhaps should put on the record, I did receive a letter from Brigid Pyke, the president of the Ontario Federation of Agriculture. I thought I had given it to Mr. Carrozza for distribution, but I may not have, and we are both going to check.

You will recall that at the OFA presentation I questioned how satisfied the corn producers were with the pricing situation. I suggested perhaps they had priced themselves out of the market by the countervail. Ms. Pyke took exception to that and she sent me a document which basically says that the problem with the proceeding was that the final tax which was levied was too low to accomplish what they set out to accomplish and, further, that it did not take into consideration the seasonal problems that existed.

So it really was not what I was suggesting, that they had taken a proceeding and not benefited economically from it; rather, it was the case that they were not happy with the results of the tribunal. Therefore, the essence of the document was that they lost. I suppose it may be said now that no country has successfully countervailed against the United States of America.

I will try to find that document and get it distributed. I am sorry it has not been.

Gentlemen, thank you very much. Obviously, it was a very thorough presentation. There was a lot of information in it, and you have captured the attention of the committee. We will certainly be taking it into close consideration when we prepare our report. Thank you again for the work that you have done.

The committee recessed at 12:21 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, MARCH 10, 1988

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

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Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Callahan, Robert V. (Brampton South L) for Mr. Pelissero

Also taking part:

Grier, Ruth A. (Etobicoke-Lakeshore NDP)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Forest Industries Association:

Bird, Ian D., President

From the International Association of Machinists and Aerospace Workers:

Erlichman, Louis, Research Director for Canada

Goodison, Jim V., Grand Lodge Representative

From the Canadian Environmental Law Association:

Swenarchuk, Michelle, Legal Counsel

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, March 10, 1988

The committee resumed at 2:04 p.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: This afternoon we have the Ontario Forest Industries Association, represented by Ian Bird. The brief of the industry is in front of you. Mr. Bird, perhaps you could lead us through it. Who is it that is with you?

Mr. Bird: It is David Hutcheon, our consultant.

Mr. Chairman: Lead us through it and then perhaps you will be prepared to entertain some questions.

ONTARIO FOREST INDUSTRIES ASSOCIATION

Mr. Bird: The Ontario Forest Industries Association appreciates the opportunity to appear before the committee and to offer its perspective on the important issue of the Canada-US trade agreement. A list of our member companies is appended to this submission for the committee's information.

A few statistics demonstrate the importance of the forest industry in Ontario.

The forest industry in Ontario uses 28.5 million cubic metres of wood annually, which represents 17 per cent of the national total, to produce 5.4 million cubic metres of lumber, being 10 per cent of the national total; 4.3 million tonnes of wood pulp, being 21 per cent of the national total; 3.8 million tonnes of paper and paper board, being 26 per cent of the national total.

The value of the industry's production is \$8.5 billion annually, of which \$3.4 billion is exported, mainly to the US. The industry employs 70,000 people directly and 140,000 people indirectly.

The forest industry has enjoyed duty-free access to the US for many years for its principal products: newsprint, market pulp and lumber. Free trade with the US in these essential commodities has been a major factor in the successful development of the forest industry in this province. Certain other products such as linerboard, fine paper, specialty paper and sanitary tissue paper, produced mainly for domestic markets, have been protected from US competition by declining levels of tariffs.

This association, in its September 5, 1985, submission to this committee, supported free trade with the US to maintain access to that vital market. It also stated that an adjustment period would be required for phasing out of tariffs on protected products.

While free trade has been good for the forest industry, a recent experience with restricted trade has been bad. The ill-advised imposition of

the federal export tax on softwood lumber destined for the US represents a trade restriction. The consequences of this restriction have become evident with the closure of sawmills and loss of over 500 jobs in Terrace Bay, Longlac, Kapuskasing and recently in Keewatin. The impact of such closures in communities where alternative employment opportunities are scarce can be devastating in social and economic terms. This kind of option to free trade does not serve Ontario well.

It is an unfortunate consequence of the trade negotiations that the Canada-US memorandum of understanding which led to the Canadian export tax on softwood lumber remains in place. Relief from this measure will be available only through periodic review as provided under the memorandum.

This association recognizes the imperfections of compromise and supports the free trade agreement for its positive features dealing with tariff elimination and dispute settlement. Under the agreement, tariffs on paper, paper products and hardwood plywood are to be eliminated over five years. Tariff on softwood plywood is to be eliminated over 10 years. Government consultation will be required with the affected industry sectors to determine adjustment measures.

Nontariff measures have become a more serious threat to predictability and security of access to market than tariffs themselves. It is our belief that the dispute settlement mechanism negotiated in the agreement will alleviate this threat. The agreement provides for joint resolution over time of allegations of subsidy and anticompetitive pricing practices. This resolution must be consistent with the agreement's objectives of eliminating barriers to trade and of facilitating conditions of fair competition.

The provision of bilateral panel review of antidumping and countervailing duty determinations represents an improvement over the current situation, with potential for further improvement over the agreed period of five years.

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This association, after reviewing the agreement, reaffirms the position stated in its 1985 submission to this committee that Ontario's forest industry benefits from free trade.

The forest industry will continue to be a major contributor to the Ontario economy by sharing the forecast two per cent annual growth in world demand for products through access to the vital US market. Our share of expanding markets will depend on our competitive ability and on future wood supplies.

The Ontario forest industry urges the government of Ontario to support the Canada-US free trade agreement for its positive features of duty-free access to the US for Canadian newsprint, market pulp and lumber and for phased protection for linerboard, fine, specialty and sanitary tissue papers to provide the necessary adjustment period for these important value added sectors to maintain viability.

Mr. Chairman: Thank you very much. Just as a matter of information to clarify something, I often find myself criticizing the softwood lumber agreement, and someone once indicated to me that there is an automatic review process that occurs every five years, is it?

Mr. Bird: There is a periodic review process quarterly.

Mr. Chairman: I am not thinking about the actual ongoing monitoring by the Department of Commerce. This person seemed to suggest that the whole agreement, despite the fact that it is entrenched in the free trade agreement, is sunsetted. Is that not to your knowledge?

Mr. Bird: You are correct; the quarterly review I was talking about is purely monitoring. But I believe there is provision for an annual review in depth, and of course there have been some changes, even short of one year, coincident with the stumpage increases imposed in British Columbia, and Quebec is under discussion now.

Mr. Chairman: That is what you referring to by periodic review. You are not expecting it to dissolve at some stage.

Mr. Bird: No, it is not my impression that it is definitely sunsetted. The kind of thing that gets reviewed is the stumpage charges, as I mentioned, and also the declining Canadian market share of the US lumber market, which has been substantial in the first three months under the tax.

Mr. Haggerty: Thank you for your brief this afternoon. I was looking at page 1, "The forest industry has enjoyed duty-free access to the US for many years for its principal products." I am looking at the area of paper. Is that because of the multinational corporations' input in the industry here in Ontario and in Canada?

Mr. Bird: Not necessarily. I think it is primarily because of market demand in the US. The US has historically been highly dependent on Canadian imports of those products: initially, newsprint, softwood lumber and market pulp. US production in all those products has expanded substantially, so our market share has declined, although our shipments in absolute terms have increased. I think it is more a function of market forces than it is of corporate ownership.

Mr. Haggerty: Normally, in the processing of newsprint, etc., almost all the machinery or equipment in the production area has been made in the United States. I am thinking one particular place would be Holyoke, Massachusetts. For the calendars you will find in the paper industry here, the calendars are made in the United States, the coating machines are made in the United States and the chipping machines are made in the United States. Even the paper machines have been pretty well all manufactured in the United States. I thought, with the tie-in with the multinational corporations, that is probably one of the reasons you have been duty-free over the years.

Mr. Bird: I guess, dealing with corporate ownership, the American-owned corporations in the Ontario industry are in a rather minority position. The big producers are broadly owned, meaning Canadian owned.

Mr. Haggerty: You have Boise-Cascade with a large American influence.

Mr. Bird: You have Boise-Cascade in Ontario and Great Lakes, Canadian owned, controlled by Canadian Pacific.

Mr. Haggerty: It is now, I guess. It was an American company at one time.

Mr. Bird: I guess largely controlled by American publishers at one point.

With regard to the second part of your question, dealing with paper manufacturing machinery, Canada has been a leader in the paper machines. Dominion Engineering has been very big for many years; it has declined somewhat recently and is now associated with a Scandinavian producer, Valmet-Dominion. Canadian manufacturers are big in pulp refiners; not dominant but quite significant.

Mr. Haggerty: I am thinking of the early days of the paper industry. I can recall that I worked on some of the machines and I know the blueprints and everything, right from their design and the machinery, were all American.

Mr. Bird: The original ones were all American.

Mr. Haggerty: That is probably one of the reasons why they were perhaps duty-free.

The other area, in regard to the floating Canadian dollar, has been raised here a number of times. I think a counterpart, your allied industries you might say, appeared before this committee and suggested that if the Canadian dollar happens to get up to about 80 or 82 cents, the loss in millions of dollars to the paper industry would have a serious impact on their future here in Ontario or in Canada. Is that correct?

Mr. Bird: Yes. This is true. Currency exchange values are probably the single most important variable affecting cost and earnings. What we are seeing now is that the appreciating Canadian dollar is cutting into earnings and US sales. However, the recent decline of the US dollar has made us more competitive in Europe against the stronger European currencies.

What free trade may do to currency exchange values, we do not care to predict. You may have received some predictions in that respect, but we think currency exchange values are more a function of confidence related to government budgetary deficits, for instance.

Mr. Haggerty: Your final analysis, looking at your brief here today, is that you want the Ontario government to support free trade. You do make some comments about the export tax that has been applied now to softwood. Are you aware that the countervailing duty still remains under this agreement in the area of the forest industries?

Mr. Bird: There is a countervailing duty on shakes and shingles which remains, but is grandfathered and phased down. It is grandfathered at five years with an annual phasedown.

On softwood lumber there was an interim countervailing duty, pending final determination, which never happened. The final determination was superseded by the federal export tax and the whole thing was withdrawn in the US, as I understand it.

Mr. Haggerty: That is where the export tax comes into the picture, but this is the way that the Americans do business, though, is it not? If they do not get their way, they can probably hold a sledgehammer against you and say, "Now, it is up to the Canadian government to put a tax on." This is how they get around it; they carry quite a bit of clout.

If you are looking at the free trade agreement as it is today, is that clout not still there under the agreement with the omnibus bill?

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Mr. Bird: There is no doubt about it that when they feel threatened, they will act, and they have done. What we see in the trade agreement under dispute settlement is a commitment of the parties to respect the objectives of the agreement. The strength of the dispute settlement mechanism is certainly not what the Canadian negotiators sought at the outset, but I think the commitment of the two parties is to respect the objectives--and we quote them there--of eliminating barriers to trade and of facilitating conditions of fair competition. To what extent they will feel bound by respecting those objectives is rather difficult to predict.

Mr. Mackenzie: Can you tell us whether or not your association is as firmly supportive of your position against the deal now as it was before the details of the agreement were made public?

Mr. Bird: I would say it is stronger now. Our position has strengthened since the submission we made to the cabinet committee review last fall when we were dealing with the articles of agreement, when the description of the dispute settlement mechanism was very vague, since the agreement came out and we saw the detailed description of the dispute settlement mechanism.

Mr. Mackenzie: I will tell you why I ask that. This is not personal knowledge, but as you know, we have a number of members who are in northern Ontario. When they saw that you were going to be before the committee, the position they put to me was that a lot of the smaller operators in particular supported the association's position on the basis that it would get rid of the 15 per cent export tax, for one thing, and that it would prevent countervail or deal with the threat of countervail, which they were concerned about.

Now that the 15 per cent is really in the agreement or confirmed and it is clear that countervail is not done away with, there is a lot less support among the smaller operators than there was previously. As I say, I have not talked to them personally, but that certainly has been put to me very strongly by some of our northern members. That is why I asked you that question specifically.

Mr. Bird: I can tell you there is certainly no dissension among our ranks, which comprises the large integrated companies as well as a number of smaller ones.

Mr. Mackenzie: They indicated that in the larger companies, particularly in pulp and newsprint, that was not the case, but in a lot of the smaller outfits and members, it was the case. That is why I put it to you.

Mr. Bird: There is a very strong sense of disappointment, but on the 15 per cent softwood lumber export tax, I guess the agreement confirms the suspicion that the industry held at the time the tax was imposed by our federal government that the tax was one of the prices we were paying to get to the table. The agreement confirms that, because the agreement does not prejudice that memorandum of understanding dealing with the export tax. It stands on its own. It confirms the suspicion we held for some time.

Mr. Mackenzie: Then you reject the argument that has been put to me by my northern colleagues that there is any weakening or any feeling by some of those smaller operators that they were sold a bit of a bill of goods.

Mr. Bird: There is no reflection of that in our association.

Mr. Kozyra: I had the pleasure of sitting in on the cabinet subcommittee hearings on this issue when you presented your case in Thunder Bay. If I recall correctly, at that time you indicated that you and other forest product representatives, from Abitibi-Price and Great Lakes Forest Products, I believe, thought there would not be substantial gains in jobs, nor necessarily monetary gains, although you indicate two per cent per year here, but the main benefit would be protection against protectionism since the forest industries association already enjoys a good deal of free trade, as you indicate, almost total free trade, and so it is in effect a protection of the status quo. Is that still the case?

Mr. Bird: It is still the case, but of course the cloud that is always hanging over our head is the status of their omnibus trade bill, which looks rather protectionist. Until we see the outcome of that, we really do not know what force the agreement will have. I do not think either country is going to ratify that agreement until the outcome of that US omnibus trade bill is known.

Mr. Kozyra: One of the major concerns that labour representatives have is the effect on labour based on the variation between what Canadian industry and Canadian labour unions have been able to gain for their employees over the years, specifically in benefit packages, as opposed to the differential in the United States, including the fact that 18 US states, I believe, do not have a minimum wage bill and many of their benefit packages are less than ours.

Has the industry considered this? Is it welcoming this kind of differential in the hope of maybe lowering the benefit packages, or is it prepared to give some assurance to the labour force it presently has that there will be no attempt to erode what has been gained? That is one of the major concerns from the labour point of view, as I understand it.

Mr. Bird: You will not see any attempt by the forest industry in Ontario to move towards harmonization of benefits with the US. You will see moves and pressure for harmonization of the tax system--we are seeing that now--as one of the competitive factors. You will not see that in employee benefit packages or employee remuneration.

Mr. Kozyra: Why not?

Mr. Bird: Because those benefits are the subject of collective agreements achieved in negotiation. There is no intention and no way of imposing will in that respect. Those things are negotiated in good faith by the parties.

The outcome is related to factors like the prevailing economic condition in the industry and general market conditions. I think that although we are very concerned about our competitive ability--and labour cost is an important element--we do, however, retain some advantages over the US in other areas; energy costs, for instance. I do not think it would be realistic for anybody to seek the best deal vis-à-vis competitors in all cost elements. It just cannot be done. It is a matrix and you do the best you can.

Mr. Kozyra: But you would agree that attacking negotiated packages is not unheard of. Through city associations and school boards, the retirement benefits gratuity is being assailed as one of those untenable aspects and is causing a great deal of concern. It is not a thing that is unheard of. I guess that is one of the concerns.

Mr. Bird: Although I think you are seeing less of those kinds of initiatives in the private sector negotiations, particularly the industry sectors that are enjoying reasonably good economic health in the forest industry. For example, in the most recent round of negotiations you have seen a pronounced liberalization of retirement benefits, reduction of early retirement age and bridging facilities, reflecting a genuine concern for the workforce.

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Mr. Kozyra: I have one further question. I am not sure if you have this article in front of you, but it says, "US Plywood Producers Fume Over Free Trade." I will just read you the pertinent paragraphs. I would like you to comment on it.

"US plywood producers got a raw deal in the free trade agreement with Canada and changes to the pact are needed to even the score, say US politicians and industry representatives.

"They took senior Reagan administration officials to task yesterday at a congressional hearing for accepting a deal that they say gives Canadian plywood open access to the US market but leaves in place some Canadian barriers to US plywood."

It goes on: "'I think a provision like this feeds red meat to the protectionists.'"

Can you comment on that?

Mr. Bird: Yes. The concern of the US plywood producers is based on Canadian building standards, and Canadian building standards are generally laid down by the Canada Mortgage and Housing Corp. Under the current standard, many species of American plywood will not meet that standard. I think they mentioned specifically some southern producers who are using open-grained, fast-grown species that have less strength than Canadian spruce or British Columbia Douglas fir. I think the problem is one of standards, and you can be sure they are pressuring CMHC to have their standard accepted. It has not happened so far.

Mr. Kozyra: Can standards be interpreted as one form of tariff or protectionism?

Mr. Bird: I guess, depending on whose ox is being gored. I am sure that is the way they see it; it obviously is. We in Canada will defend it on the grounds of the adequacy of construction to meet our weather conditions and whatever other conditions we are concerned about.

Mr. Ferraro: Thank you for the presentation. On page 3, you state in the second paragraph, "This association, after reviewing the agreement, reaffirms the position stated in its 1985 submission to this committee that Ontario's forest industry benefits from free trade."

I fully accept that and concur. Where I have difficulty and where this government has difficulty is in the distinction between free trade and this particular deal, which I think are two different things altogether. I will ask you first to confirm that what you are really saying is that you are in favour of this deal.

Mr. Bird: Yes.

Mr. Ferraro: As a derivative of that then, could you tell me--and I say this with respect and out of ignorance--how did the association come to this conclusion? You say "after reviewing" it. Did you hire a team of lawyers, or did each corporation submit from its legal department what it thought of the deal? How did the association come up with that?

Mr. Bird: We did it through a canvass of our membership and a discussion and study by a small group, the drafting of a position, the submission of that draft to members for revision and correction; that kind of process.

Mr. Ferraro: OK; fair enough. I guess the real question I want to give Mr. Bird a chance to address and to enlighten me on is that the main distinction, if you will, between your association's view and my view--I will just speak for myself--is that you think and believe, based on good advice, that the dispute settlement mechanism is in the future going to benefit any and all trade actions in this particular point of view, from Canada's perspective and your industry's perspective, from the standpoint of making things easier. I understand and respect that.

If I can speak for the government's side for a minute, our legal advice and expertise say the contrary; that it is no better.

I guess what I want to get at is that you must have had some experience in the past, I am sure, with trade actions from the United States. You were involved in appealing ITA rulings, for example, to either the courts or to the General Agreement on Tariffs and Trade. Is that true? Are you familiar with them?

Mr. Bird: Yes. Although personally, since I have been with the association, I have not been directly involved--just countervailing duty on lumber to the US.

Mr. Ferraro: OK. But you are familiar, in any event, with some of the actions incurred by some of your members?

Mr. Bird: Right.

Mr. Ferraro: Can you tell me then, if you went to the courts or to the GATT, is there any distinction between how they dealt with dispute resolution and how you envisage the new dispute settlement mechanism would?

Mr. Bird: I cannot speak for GATT. I can say a little bit about the US trade law, particularly that applying to countervailing duty.

Mr. Ferraro: What I am getting at is, after it goes to the ITA stage and it is appealed, the pro-free-trader will say, "From now on, instead of going to the US court system or to GATT, we're going to go to the dispute settlement mechanism." Those who have experienced it--and I certainly have not--have told me that the GATT system worked quite well. Indeed, what happened was that the GATT would say--let us use this case--"United States, your law is wrong, so change it." Now I am told by the people who are advising us, legal experts and so forth, that we are almost compelled to go the dispute settlement mechanism route when we appeal and that it is not going to have any clout. What they are going to say is, "Yes, you can do it," or "No, you can't do it," according to the laws in place, but they will not have any enforcement per se. I guess what I am trying to get at is the truth.

Mr. Bird: I guess what we see--and you will notice we use the word "potential" when we talk about improvements to the dispute settlement mechanism--

Mr. Ferraro: Yes, I fully realize you qualify it.

Mr. Bird: --because nobody has seen it work yet, and we are looking at a lot of words. But we do see opportunities, through a bilateral panel, a mechanism that has not existed until now, to resolve differences short of going to ITA or any appeal body. Those appeal bodies will remain in place, but we see a better opportunity--

Mr. Ferraro: Can I interject for a moment, just for clarification purposes? I understand you are still going to have to go to ITA before you get to the dispute settlement mechanism, that it is only on appeal that the dispute settlement mechanism gets into gear. Am I right?

Mr. Bird: I will accept that.

Mr. Ferraro: I am pretty sure that is the case.

Mr. Chairman: By ITA, you mean ITC.

Mr. Ferraro: The international trade agency the US has. We in Canada deal through the Department of National Revenue and the international trade commission we have, or something. They have ITA and--

Mr. Chairman: I think they call it ITC.

Mr. Ferraro: ITC--I think you are right--International Trade Commission. You are right.

Mr. Bird: I am looking specifically at antidumping and countervailing duty determinations, which can go directly to a panel, can they not?

Mr. Ferraro: Mr. Chairman, I need some help here. I was under the impression that it is only on an appeal body.

Mr. Chairman: That is my own understanding. Let us take a look.

Mr. Ferraro: While he is looking that up, what I am really getting at is that I am told when we went to GATT we batted about .800, and now really we are in a corner--and I think you admitted it is going to be somewhat dubious until we actually experience it--where if we have this deal, we pretty well have to go on appeal to the dispute settlement mechanism. I guess I am just a little leery because of the hypothetical, unproven nature of the dispute settlement mechanism at this juncture. Are we buying a pig in a poke and throwing away a designated hitter who has performed pretty good for us?

Mr. Bird: I do not dispute your statement of our record at GATT. Our success record, our batting average, in recent countervailing duty cases sure has not been very good.

Mr. Ferraro: You are right, and I totally agree with you.

Mr. Bird: It has been lousy.

Mr. Ferraro: The critics of that statement--and I am trying not to be partisan on this--would say, "Yes, but since the new government federally got in, they did not really push GATT all that hard, for obvious reasons." Whether that substantiates that slump, if you will, I do not know. I do agree, for whatever reason, that we have not been doing all that well lately, but it still does not get me out of the dilemma of why the big, radical change all of a sudden. You have heard it a thousand times: Why fix it if it ain't broke?

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Mr. Bird: We sure have no argument with that principle, although it may require a little maintenance along the way.

Mr. Ferraro: Yes; fair ball.

Mr. Bird: But when we saw a softwood export tax on Canadian lumber, that signified to us that something was broken. A fix is needed to prevent that sort of thing happening in future, I guess to reduce the risk of the kind of harassment that forced our federal government into doing that. We think, provided both parties respect the objectives of the agreement, the risk of harassment is reduced.

Mr. Ferraro: Time will tell, I guess.

Mr. Bird: It is all words up till now.

Mr. Chairman: I think the article we are talking about is article 1904. It reads:

"1. As provided in this article, the parties shall replace judicial review of final antidumping and countervailing duty determinations with binational panel review.

"2. Either party may request that a panel review, based upon the administrative record, a final antidumping or countervailing duty determination of a competent investigating authority...."

I think there have been some writers, such as David Crane in the Toronto Star, who have pointed out that the argument we are hearing a lot, that it is speeding things up, does not have a great deal of merit, because the time we are talking about here, which I think has to take place in less than a year, does not commence until you have gone through all the other procedures.

I wonder if I might ask a couple of questions myself. How is your organization related to the Ontario Lumber Manufacturers Association?

Mr. Bird: A number of companies maintain membership in both associations. There is a distinct service provided by the Ontario Lumber Manufacturers Association, a grade-stamping service related to lumber standards for exporting into the United States and elsewhere, which is unique to that association. Our association does not provide that service. Lumber producers, particularly those exporting to the US, need a grade stamp. They get it from OLMA or from the Canadian Lumbermen's Association, not from us.

Mr. Chairman: You are saying they are almost parallel. Might they have more activity in the export field? I am simply gathering that from what you have just said and from the titles of your two organizations. You are talking about forest industries generally and they are talking about lumber, which may be a step beyond.

Mr. Bird: I would say, again by virtue of their grade-stamping service and the other services we both provide, they are probably more intimately involved with trade matters than we are.

Mr. Chairman: The reason I am asking this, and I hope I am not leading you down the garden path, is we had a submission from them on January 26, which was a pretty tough anti-agreement submission. They were in favour of free trade. They felt they had it, I suppose, to some extent until the softwood lumber deal. They talked a lot about the softwood lumber deal, and as I recall, the president of the association was particularly incensed that the constant review of the deal meant some potential jeopardy to his own firm if somehow or other there was something that might be considered to be a subsidy that occurred down the line, although he admitted that he had never been investigated as far as he knew. Their final paragraphs says:

"Free trade has been the essential ingredient in the growth of the Canadian softwood lumber industry. It is our opinion that the spirit of free trade, now denied us, is in the best interests of our industry and of the related industries and communities it supports in Ontario. It is also our opinion that the Canada-US free trade agreement, as we know it, is not in the spirit of free trade. That is, as per the example of our industry, the agreement has resulted in impediments to free trade. Not being at all conversant with the impact other industries face in this new climate, I can only speak for our situation and our situation, to restate the obvious, is that, under the Canada-US free trade agreement, the Ontario softwood lumber manufacturers do not enjoy free trade."

Similarly, we had a submission from the Deputy Minister of Natural Resources to the effect that they felt they were enjoying benefits of free trade up until now. We had a very powerful argument to the effect that they have given up some of that and we have not seen anything in return. In essence, while they endorsed what they had and presumed that other industries might benefit from it, now they feel less happy.

Balancing that, I should tell you I was in Vancouver last summer and was faced with the president of MacMillan Bloedel and a few other very large companies that claim the softwood lumber deal was not of any concern to them because they did not get any subsidies anyway, I suppose, and because they were public companies and their books were open to anyone anyway.

I throw those three views at you and ask you to comment, if you will.

Mr. Bird: I guess the first one is from the lumber manufacturers. The lumber manufacturers are hurting. They made that clear to you. We mentioned it, too, in our submission. There is some very real pain and suffering going on there.

That results, however, from an action of our federal government. It results from an action of our federal government pressed by the US government with the US lumber lobby in an anteroom. And when all that was going on, our Canadian government did not have its Canadian lumber producers in an anteroom. They were alone at the table. We had no idea in the world what was going on, except what we got from the media.

I do not think that is the result of Canada-US trade negotiations. We feel we can be very critical of our federal government for being bulldozed into that position. And our association, as Ontario lumber manufacturers, and the people you met in British Columbia contributed substantially to the

defence of the US countervailing duty claim. I guess your lawyers will always tell you that you have a good case, but according to the advice we received, we had a good case and we put \$10 million into the defence and got scuttled at the last minute.

I think it would be very difficult--obviously it was impossible in the trade negotiations--to have that withdrawn. Our federal government got suckered and we are stuck with it.

As to your second comment on the remarks of the Deputy Minister of Natural Resources, I have read those remarks and they are sincere and valid. The deputy was particularly critical of a negotiation where we knew going in what we wanted to get and presumably what we were going to give and we came out without getting what we intended to get. I think anyone who goes into a negotiation and comes out with exactly what he thought he was going to get was not in a negotiation at all. Negotiation is an art of compromise and you come out with the best deal that you can get. Perhaps stronger negotiators would have got us a better deal, but in the final analysis, we are better with that one than without any. I guess that is the crux of our position.

As to the British Columbia producers you met last summer, had you seen them subsequent to the changes made by the British Columbia government in their forest management policy and in their stumpage charges, I am sure they would feel quite different. They really got hammered.

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Mr. Chairman: I must say, I felt a little lonely in Vancouver opposing free trade.

Mr. Bird: It is easy for an easterner to feel lonely in Vancouver.

Mr. Chairman: Are there any other questions?

Mr. McCague: Don't take it personally.

Mr. Chairman: No, I will not take it personally.

I appreciate your submission. You have been very forthright with the concerns of your industry and I think all members, northerners or southerners, take them to heart.

Mr. Bird: Thank you.

Mr. Chairman: The next witness is the International Association of Machinists and Aerospace Workers. Their submission is being distributed to members of the committee right now. They are represented by Louis Erlichman, Canadian research director, and Jim Goodison, the grand legion representative. Gentlemen, make yourselves comfortable. If you could lead us through your submission and perhaps then entertain some questions, we would appreciate it.

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Mr. Goodison: Thank you for the opportunity to appear before this committee and to make a presentation on behalf of the 16,000 IAMAW members in Ontario. As you are aware, we are desperately at loggerheads with this whole proposal that is being made by the federal government, on the basis that we see nothing but trouble for the employees and the workers of this province.

I have with me Louis Erlichman, the Canadian director of research, and I would ask him to lead you through, then we will be glad to answer any questions which you may have concerning our presentation.

Mr. Erlichman: Our brief starts off by saying we oppose the agreement--this has already been said--and tries to explain in somewhat more detail why we oppose the agreement.

To go through it briefly, the deal does not give us free trade; that has been said many times. What it primarily does is tie the hands of public authorities in this country from dealing actively in terms of controlling our economic policy in the future. Whether free trade is a laudable goal, I have my doubts. It certainly has never existed in any real way. Apart from that, this deal does not present that, in spite of the way it is being sold.

Unless someone has an almost religious belief that anything that calls itself a free trade deal is automatically a good thing in terms of one's economy, then I think it is very difficult, even for people with a sort of fundamental prejudice in favour of less government intervention in the economy and more market-driven kinds of economies; even people with those kinds of views would have difficulty supporting this deal.

This deal has some very important trade implications. It gets rid of tariffs, but primarily what it does is tie our public authorities' hands in terms of present and future action. All manner of public policy tools are basically precluded by this deal. One of the more disturbing parts of the deal is that it is only the beginning of the process, it is certainly not the end; there is going to be much more negotiation. This is only to talk about harmonization of standards and putting together what might be called the level playing field. In effect, it does tie our hands on energy policy, on regional development policies and even on the adjustment policies that will be necessary as a result of this agreement.

On things like setting up public corporations, our union has been one of the groups that has been calling for public auto insurance in this province. It has been suggested that what the Liberal government has proposed on public auto insurance was a kind of first step, and if that did not work, it might be willing to countenance actual public auto insurance beyond the regulatory framework that it has proposed at this point.-

One of the problems with this agreement is that it will make it virtually impossible to take that next step, if it is deemed necessary. In the first place, we hit the Americans to agree that we can bring in any kind of new public corporation. Then we have to compensate people. As far as I can tell, that means we have to compensate all the American insurance companies operating in this province for the loss of business. So we are really tying our hands in the long run.

Another important point we would like to make--and it was raised, I guess, by the last speaker--is about the people out west and the people in the east and how everybody out west is all for free trade. Clearly, free trade has been sold out west and in other areas partly on the basis that if Ontario does not like it, it has to be good for the west, which makes a certain amount of sense, but the problem is that it is not good for the west either.

Certainly we have members all across this country and members in the United States. It is not good for resource-producing regions because it ties them, further and further and even more tightly, into a resource-producing,

resource-exporting straitjacket. We think that, as people understand the impact of this deal and the fact that it does not provide any kind of greater guarantee of access to the American market for exports, but second, even for a resource-producing region, it will simply lock them into a more dependent pattern of development, people will not support this in any part of this country.

We are an international union, and sometimes it is put forward: "It's not a great deal because we got outnegotiated. We could have negotiated a better deal. It's a good deal for the Americans, not a good deal for us." Our view as an international union is that it is not a good deal for American workers and not a good deal for Canadian workers. It is a good deal for international corporations, because it hurts workers on both sides of the border; it will not help them. It will strengthen the hand of international corporations against workers on both sides of the border.

It is almost remarkable to see the depth of the ideological core of this agreement. If you think about it, what the negotiators are fundamentally saying is that sovereign action by a government is, in effect, the enemy. If you want to take it to its extreme, and it is not too far from where things stand, the very existence of a Legislature like the Ontario Legislature is a nontariff barrier. The very fact that you might make rules, regulations and legislation will be an impediment to trade. You might set standards, you might set health and safety standards in the workplace that are an impediment to trade. That is a shocking thing.

I do not want to spend too long a time talking about the general issues here, because I am sure a lot of people have talked to you about them. I want to talk just a bit about some of the industries where we represent workers in this province and what the impact of this deal, if it comes to pass, will be on those members of ours.

We would say that, generally speaking, the impact is going to be substantially negative. People will generate numbers. All kinds of people will generate all kinds of numbers on the impact of the deal. I guess the latest federal government tactic is in fact to imply that while this is certainly the deal of the century, it is going to have virtually insignificant effects on the labour force and so on. Therefore, they will not have to put any more adjustment programs into place, which is of course very convenient, since under the terms of the deal they have great difficulty putting any adjustment programs into place.

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We do not buy that argument. The impact is going to vary all over the map, and in fact, some corporations may well do well out of it. Generally, large international corporations will do better out of it. Smaller independent Canadian operations will do less well. There will be that variability, even within industries. But I just want to talk briefly about some of the sectors we are involved in.

Air transport, which now theoretically is one of the items off the bargaining table, makes us nervous because there are all kinds of things that were off the bargaining table all through this negotiation, the auto pact and everything else, and suddenly, when we came down to a final deal, they were all back on the table. This is only the beginning of a process and we have no faith that the transport sector is going to stay off the bargaining table.

The principles enunciated for the service sector in the deal--national treatment, right of establishment--would lead us fairly quickly to unrestricted access for American carriers to our domestic market, and given the history of deregulation in air transport in this country and in the United States, basically there has been increasing concentration. Our two big carriers in this country, in terms of size, rank well behind the big American carriers.

The American carriers have all kinds of other advantages in terms of transborder traffic and connections to the US market. If they get unrestricted access to our market, which is where this deal leads, we have 40,000 to 50,000 workers in this country at risk. And there is a whole spillover impact in terms of the aerospace sector, in terms of parts suppliers, food service companies and so on.

We have a problem in terms of the railways, not so much again with American competition, that the Americans are going to come in, but rather that we are going to be hindered in a lot of our support programs, agricultural support programs and so on, which will have an impact on the railways.

We are in serious trouble with aerospace. Nowhere in the world does the aerospace industry operate on anything approaching what might be called free market principles. In fact, it probably never could be expected to, given the kind of long-term horizons and huge investment involved in the aerospace sector.

In most countries, aerospace is either directly owned or very tightly controlled by governments. In the United States, it is not. It is subsidized, essentially, through the defence contracting business. Defence contracting, by and large, has effectively been exempted from this agreement. Because of the defence contracting exemption, we still retain some leverage, but a very limited amount of leverage in terms of defence contracting. There is a tightening up quite evident in terms of American defence contracting.

We are in serious trouble. We have already had problems maintaining our aerospace industry in this country. If we have a declining domestic air transport sector, if we are limited in terms of the nonmilitary support we can provide in terms of export financing, our aerospace sector will be put at risk by this deal. Aerospace is a very important sector. Apart from the jobs, a lot of which are in southern Ontario, it is a high-technology sector. It is a leading-edge-technology sector that has a lot of spillover implications. It is a sector that is put seriously at risk by this deal.

I am sure you have heard a lot about the auto industry. Our reading of it is that in the longer run, it is going to be hit. Probably the Big Three are not going to pull out, but we are constrained from negotiating auto pact agreements with different auto companies, other than the ones already covered by the auto pact. I think what we are going to see is a gradual diminution. We are going to have problems fairly soon, I think, in terms of auto parts, but we are going to have a gradual loss of the assembly sector in this province. We are not that involved in the assembly sector--we are involved in auto parts primarily--but I do not have to point out to you the impact on the Ontario economy of decline in the auto sector.

There is a whole range of manufacturing operations in Ontario that we believe are in trouble, the machinery sector in particular, which I think is a clear indication of the failure of the market system. In the machinery sector we have historically had trade deficits in this country running close to \$20 billion in machinery and equipment.

There are some remarkable things in this trade agreement. One of the interesting parts is, to be eligible for duty-free entry, to be a domestic product for crossing the border in either direction, you need 50 per cent North American content. But foreign machinery and equipment from Germany or Japan or somewhere else counts as domestic content under this deal.

We start off with a very weak sector. We not only do not offer any encouragement to the sector through this deal but we offer further discouragement. We have all kinds of biases built into essentially a foreign-controlled industry that work against building up our machinery and equipment sector. The decline in the auto industry that we foresee will affect the machinery and equipment sector, so that is another industry that is in very serious trouble.

You can write off major appliances altogether. I do not know if you have had specific submissions from those people. I am not sure whether the management of those international companies cares, but they have more excess capacity in the United States than the entire Canadian market. As soon as there is free trade, you can forget about major appliance production in this country and in Ontario.

Again, I will not get into the paper industry. We are involved in that. I do not think they really have anything in the way of extra access. You had a discussion with the previous speakers on that. What may hurt them, I think, are the restrictions on any kind of control we can have on our resources in terms of providing perhaps more energy costs or providing for greater processing, higher value added work, to be done in this country, not just in the paper industry but in the rest of the wood and forest product sectors.

We see a pretty bleak picture. You can probably pull out the odd company somewhere that thinks it may do better because of what it perceives as better access to the American market. We think the evidence is overwhelming that as a trade deal, apart from other broader implications, it is a very poor deal.

I am not exactly sure what the process is with respect to this, because it is not a piece of Ontario legislation per se. We would hope this committee would encourage the provincial government to act as strenuously as possible to make sure this deal gets stopped. If it does not get stopped before it passes here or in the United States, we hope it gets turned around within a year or two, before its impact is essentially irreversible.

We see that probably within four or five years of this deal, patterns of production and everything else will change to such an extent that it will be almost impossible for us to extricate ourselves. We ask that this committee recommend to the government that it use whatever means--legal means, political means, any other means--to try to stop this deal.

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Mr. Goodison: There are a couple of things I would like to put emphasis on, and one deals with the aerospace industry. Maybe it is fitting that we happen to be this year on the 30th anniversary of the closing down of the Avro Arrow and the Hawker Siddeley Co. that went with it, which was done the last time we had a Conservative Prime Minister. At that time, there were 14,000 direct workers who were affected, but in all, our surveys indicated there were in excess of 100,000 Ontario workers who lost their jobs as a result of that.

The industry subsequent to those years has been rebuilt, and it was built on the basis that the subsequent governments have put some work-share programs into their purchases. For example, the reason we have McDonnell Douglas located in Malton today is because of the work-share program that was implemented through the purchases of the DC-9 aircraft by Air Canada.

Now the DC-9s are going to be put to pasture and Air Canada is looking for replacements for those aircraft. If we are going to be faced with a program or a situation where we can no longer impose work-share programs on our purchase, can you picture what that is going to do to our aerospace industry in this province, in this country? Primarily, for the most part, I am dealing with this province because that is where most of the industry is.

Those are the kinds of things we are going to be affected by, and we are going to be significantly affected. There is no way in hell that we can ever compete with the kind of operation that Boeing has in Seattle. We cannot hope to do that unless there is some imposition on them and some compulsion for them to do it. As a union in an international union, we have had to do some screaming with our own brothers south of the border on the basis that they wanted their subcontracts pulled back in. Of course, when we started talking, they recognized that at one point in time the only aircraft that were going through there at all were the ones with the Canadian maple leaf on them, so they had to have the work-share program if they wanted to get the balance of the work. I do not think we should be taking steps to close those doors.

The automotive industry is already making moves. You can take a look around. For example, we represent 200 members at Morse Automotive in Simcoe. We know that operation--it is a branch plant operation--is having trouble holding on to its work right now because of the excess capacity of its parent organization south of the border. If we make it easier for them to make the moves, you know what is going happen there.

You have all been reading the papers and you heard the games that are going on with Long Manufacturing in Oakville. Well, what is not being said is that Long Manufacturing, whom we represent in Cambridge, has already got property in Kentucky. Kentucky and South Carolina and Georgia have some real advantages; they do not even know how to spell workplace health and safety, let alone have any legislation.

The fact is that we just passed this year--it is not even in force yet--Bill 79 on the workplace hazardous materials information system, WHMIS, for health and safety. We are saying: "OK. We are going to protect our people." The corporations are saying: "Well, that's fine. We won't be around to implement it." If we are going to leave the door open, that is what is going to happen.

Dominion Chain in Stratford is already looking at wage cuts and at the possibility of moving. The chain division has already gone, moved out. It is questionable how long the automotive section of it is going to be there.

Those are things we are already on. We are having trouble trying to maintain the industry we have, and if this legislation goes in and virtually wipes out the border as far as any imposition of regulations is concerned, either through health and safety or anything else you may do, then we can see it doing nothing but harm.

The machinists' organization has more contracts with more employers than any other union in the world. We are not the largest, but we have that because

we represent many more small shops. The philosophy is that anyone who wants a union has the right to come into our organization. As such, we have many small Canadian branch plant operations that have opened up here because they wanted access to the Canadian market. They already have the capacity south of the border to be able to fill that in. If we do not get this deal closed down, we are going to be affected drastically.

Mr. Chairman: Thank you very much. That was well put.

Mr. Callahan: I have not sat on this committee that often, but on page 6 of your brief you make this statement:

"Whether or not the US 'protectionist threat' has been manufactured as part of a strategy to promote this deal (and we suspect it has at least been much exaggerated), the deal makes us, ironically, more rather than less vulnerable to US action."

I have always had the feeling, and I cannot support it, but it seems as though this is what you are relating to, that if one looks back over the history of the politics in the United States, particularly with congressmen running for office in the border states, when it came time for an election, they did a bit of posturing, as it were, to demonstrate to their constituents that they were defending their rights. Once the election was over, the posturing stopped and nothing ever came out of it.

If you play that against the Shamrock Summit in Quebec, since these things were going on at that time--in fact, at least one of them, if not two of them, with the result that the deal had to be negotiated--I have to come to the conclusion that the Prime Minister of Canada took the wrong signals from all those events and thought this was the only way to rescue Canada from what I would call political posturings. As a result, we wound up in this "historic deal" arrangement or agreement. Is that what you are alluding to there?

Mr. Chairman: Irish politicians.

Mr. Callahan: I think the Prime Minister, with all due respect to him, misread the entire arrangement. I think it had been going on for years, that politicians did that.

Mr. Goodison: Just in response, I spent some time in a position at our embassy in Washington. Most of my time was spent trying to play down the buy America programs that were being used; or it could have been buy Pennsylvania, as the case may be. Of course, I would have thrown back at me at those times, "What about the buy Ontario program that is going on?"

All those things have been going on for years, and there is no argument that it is going to continue. I guess really, when you get down to it, if you are going to buy something, you are going to try to help your neighbour out, more so than some stranger.

Maybe, as you say, the Prime Minister did read the sign wrong. I will not get into that aspect, but the fact is that he may have read the wrong sign and decided he had to do something in order to protect us when it really was not necessary at all.

Mr. Erlichman: If I might respond, my perception of it is that it was a little less passive process. I really think, whether it is the Prime Minister or the Business Council on National Issues, which I think is the real

architect of this deal, they decided that they wanted this deal and they wanted, in a sense, a new economic constitution which tied the hands of the Canadian government. They figured quite honestly one way to get it is to make quite a deal of protectionist pressure in the United States.

I think you are right. Senator Gephardt, who seems to have gone his course as a presidential candidate, was there.

Mr. Callahan: It did not help him much, did it?

Mr. Erlichman: Particularly when you are in a period when the United States is running these huge trade deficits, there are going to be all kinds of protectionist moves, whether or not they come to much.

But I think consciously that was used to make that next step. I cannot speak for the inner workings of Mr. Mulroney's head, but I think the Business Council on National Issues, which was clearly the architect of this deal, was quite consciously using that protectionist threat as a tool and expanding it.

Mr. Callahan: To create the atmosphere for the rationale as to why we should have--

Mr. Erlichman: We need a deal at any price or else we are in real trouble.

Mr. Callahan: The other part of it that really frightens me too is that my recollection is that most of the arguments in the House--I am not criticizing my friends in the third party--were premised by things like: "I think it will happen. I think it will cover it. I am afraid that if we don't do it, this will happen." It almost appeared as though the agreement was one that was born out of a country being so afraid of this hysteria that, if I am right, had been caused by whichever of the two scenarios, yours or mine, that people thought not to support it would result in the annihilation of Canada as a trading country.

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Mr. Erlichman: I think that maybe exaggerates people's sense of the impact. The polling one sees is that people, by and large, just do not understand the deal at all. The initial polling was very positive. People's response just on the notion of free trade is positive. You can get cheaper goods and be able to import all these things and they will be cheap. You get a general positive sense.

I do not know that it really worked its way deeply into people's consciousness, perhaps more out west, obviously, than here, because there were some items like the softwood lumber dispute that were played up very strongly. I would be doubtful that it came very deeply into people's consciousness. I think the federal government wanted that to be felt.

Mr. Callahan: The reason it does not seem logical to me is that if one looks at the success we had in reducing tariffs through the General Agreement on Tariffs and Trade, down as low as five per cent, when one looks at the success we have had in tribunal hearings--in fact, just recently, we have had one that was very successful--one really has to wonder why the mood would have been there to have cast all this aside and enter into this arrangement.

When you look at the agreement and see how poorly it provides for us vis-à-vis what it does for the United States, you have to wonder whether it was not negotiated out of fear. That is what leads me to believe it was negotiated out of fear.

Finally, you commented on the public and its lack of awareness of the true meanings of the agreement, both in Canada and on the other side of the border. My experience is probably more limited than anybody's on this committee because I am getting it from people I know down there. They know absolutely nothing about free trade and could not care less.

It is only suddenly that the politicians down there have decided that maybe they have something that is going to be a product they can run on in the presidential elections in November. It could prove to be the crowning glory of President Reagan, who goes down in history as something other than perhaps aid to the Contras. Maybe that is a cynical approach to the whole message, but I am reinforced in that by looking at the fact that the Democratic members of Congress are trying to delay this matter until November, during the presidential elections, so they can use it as a tool against Mr. Reagan.

That may be a rhetorical question and just a statement that I was itching to get out of my system. It seems so clear that the things we gave away were so outrageous: our energy, having to provide the United States with the same amount of energy over the three-year period we have been giving them in a time of crisis.

The other thing is that it always amazes me that the public are excited about the fact that they are going to be able to go to Buffalo or New York City and buy products cheaper. I have to answer that question and say: "If you are buying them all in New York and Buffalo, who is buying in Toronto or in Ontario or in Canada? Where are the jobs going that are being lost as a result of nobody buying here any more?"

I can see where your particular industry is very critically affected, because of the nature of it. We blew it once with the Arrow. Certainly, my community and my riding were terribly affected by that decision.

Mr. Chairman: Some say it never recovered.

Mr. Callahan: They have never forgiven the government of the day that did it. I do not think any Canadian really should, because we would probably have been in the forefront of the aerospace industry had we continued and marketed that commodity. In fact, it is amazing that Canadians have been able to put together the space arm in the light of that dark day in the history of my riding and the history of this country.

Mr. Goodison: I was just going to make a comment. It seems strange that the people we did away with there--disemployed, I guess, is the term--were the ones who went down and headed up the US Apollo program and things of that nature.

Mr. Mackenzie: I was going to ask Mr. Callahan if he was going to be here for the writing of the report of this committee. I am glad to see the much tougher position, it would appear, that some of the members are ready to take now when we make some recommendations to the House.

Interjection.

Mr. Mackenzie: I take it you are going to be here to write the report.

Mr. Ferraro: Let us not be partisan. You and Bob Rae too.

Mr. Mackenzie: I would like to ask a couple of questions. One of the things that was raised was the lack of any opposition, or as much opposition, not any, to this deal out west. I had an experience that I mentioned once before recently when I was at a 50th wedding anniversary celebration where we delivered a little plaque and, to my surprise, two of the sons of the family that I was delivering it to turned out both to be small business people with a number of employees in Edmonton. I thought I was in for it when they asked what my occupation was--just after the presentation--and was pleasantly surprised to have both of them tell me they had very grave reservations about it and that the support was not automatic out west. This was Alberta or all places.

I know you have members right across the west and I am wondering if you can give us any indication as to whether there is some concern, as much concern or total support for free trade amongst your members when you get outside of Ontario.

Mr. Goodison: There is not the support with our members, because our members are working in the aerospace industry out west the same as they are here, and they know what is going to happen to it. The same types of industries that are being represented here in this province are being represented out west. We have done our educational program with our people and, unfortunately, the voice of labour in Alberta is not too loud at the present time. We are making steps wherever we can, but there is no support, virtually no support in any industry that is represented by our organization in the western provinces.

When you talk about the benefits to the west, our former Governor General and former Premier of Manitoba must be a little twitchy in Australia when he is listening to what is going on here, because he built as a tax base for Manitoba the energy program where they put in hydro stations and put in transmission lines to Ontario and to the United States and said, "Come and buy from us." If you cannot build in even the cost of those transmission lines and charge a little extra for them to the customers, then he must be a little twitchy over that. I do not see how we benefit on that kind of thing.

I do not accept this philosophy of share the poverty program at all. If we have it and they want it, let them come and pay the price that goes with it, the same as they are going to have to pay someplace else. Why should we have to sell it if we need it for our own people?

Mr. Callahan: Do you think they want the water more than anything else?

Mr. Goodison: That is the thing that is coming. We were complaining about the levels of the Great Lakes. If they get to open those gates up, we will not have to complain about it very much longer.

Mr. Mackenzie: So there is no question that there is opposition to this agreement, at least in terms of your organized members in all of the western provinces. Other than some of the big energy interests, I have a suspicion that the case is overstated for the support for free trade in some of the western provinces in any event. I never thought of it when some of the

other labour groups were here to ask whether you have your members tuned in to what is going on in western Canada.

Mr. Goodison: We are doing it right across the country with our members, because in actual fact we see some of our members in other provinces who are going to be much more detrimentally affected than they are in Ontario even. If you take away the right to become involved in regional development programs in places like the Maritimes, Newfoundland and so forth, industry itself is just going to go right down the tube and our members with it.

Mr. Erlichman: I agree. It is pretty solid across the country. I think the media out west have been much stronger in support of the deal. They are supportive in terms of creating the kind of hysteria around the softwood lumber issue and other things--we need this sort of thing--and also creating the sense that if Ontario does not like it, it has got to be good for us. The ironic part is very likely Ontario will do better or less badly than other parts of the country if this deal goes through. That is the ridiculous part of it. Our members are fairly strongly against it all across the country.

Mr. Mackenzie: You raised--and I just had not thought of it previously--the work-share proposition in terms of the development of the aircraft industry here and the dangers to any such future program. In terms of subsidies, you are probably aware that what might be considered subsidies are up for negotiation with a five- to seven-year time frame. I guess the obvious question--it was obvious to me right off the bat--is how do you enter into a deal and sign a deal that by the time we are five years down the road will really have you tied in when you have not yet negotiated what we are going to have to give up in the way of subsidies or what the subsidies are going to be? I am wondering what the reaction of the trade union movement is to that.

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Mr. Goodison: Let me just say that if we tried negotiating an agreement for our members in that way, we would not survive very long. That is like signing the document and say, "Yes, we agree to it," and then allowing somebody to fill in the pages after that. We do not know what is going to come out of that. What we have seen of the bargaining power of our negotiators leaves me twitchy, because they just have not demonstrated their ability to match the Yeutter and Murphy. I just get a little bit concerned.

Mr. Mackenzie: My final point--and you touched on it--is just what was the reason behind this. The thing that bothers me a bit is that the initiative and asking for it was Canadian. That came from our Prime Minister, regardless of how it was set up. It came from him after having been very strongly against it. I have gone back and watched some of the televised clips when he was running for leadership for the federal Conservative Party saying it was not a good deal, it would threaten our sovereignty and he would have none of it now or in the future.

It seems to me that the initiative really came from the first meetings of Mr. Robinson, the ex-United States ambassador, and the National Council on Business in Toronto in 1982 and 1983. Very shortly after that, all of a sudden they had Mr. Mulroney dancing to a totally different tune. Given that and the fact that they changed his mind some how or other very quickly, do you feel that it is legitimate to say that anything less than a vote in this country on this issue before it is finalized would be--the strongest word I have seen put to date is almost treasonous. Is your organization also supporting--I know what is the position of the Ontario Federation of Labour--that there has to be a vote before this is finalized?

Mr. Goodison: Yes, Mr. Mackenzie. We totally support the position of going to the people on this whole question. We are not dealing just with the economic future of the country; we are dealing with the political future of the country as well. We do not think that a country that loses its economic base can survive politically. We think that our country is worth at least a vote and we want that position put forward.

I think you have to go back into the history of the existing federal government to take a look at the sequence of how they brought this in as well. You must remember that the Prime Minister was running into a spate of difficulties with cabinet ministers through conflict of interest and so forth. I have a strong belief that this was brought in as an alternative to get the focus away from the heat he was facing along that line.

Mr. Chairman: Mr. Ferraro and then Mr. Haggerty.

Mr. Ferraro: Thank you, gentlemen, for your presentation. I should tell you that I took some delight in reading and listening to certain parts of it. I could not agree more with the statement made about you will never have free trade in a strict economic sense of the word; you may have freer trade and so forth. I should also tell you, Mr. Erlichman, I would have enjoyed your presentation a hell of a lot more if you had not started talking about public auto insurance, but that is a discussion for another day.

Mr. Mackenzie: You are not ready to leave yet.

Mr. Ferraro: No, I am not, Bob and I never will. I doubt that.

Mr. Callahan: See how that one flies on April 26.

Mr. Ferraro: I want to ask a question which couples a little bit of what you responded to Mr. Mackenzie and to others, and that is the risk involved here. There is no doubt that our economic sovereignty is at stake and I agree our national sovereignty and political sovereignty. Indeed, many politicians' livelihoods are at stake. That is natural; that is the system. I want you gentlemen, if you will, to comment on some of the stuff that has been coming up more prevalently lately and that the livelihoods of the labour movement, and unions in particular, also to some degree would be undermined. I wonder if you could comment on that.

Mr. Goodison: Are you talking about the reduction of membership and so forth?

Mr. Ferraro: No, because of free trade, if somebody, the company you mentioned, is going to say: "To hell with it. I am going to go down to Kentucky." I have had some examples of people who want to avoid our trade laws and our standard of living, which I think are important, and they are saying, "To hell with it."

Just to give you an example, I had an economic development officer who was dealing with a Japanese camera outfit for an office of roughly 150 people--this is free trade for you. The outfit ended up going to Georgia. He got land for \$12,000 an acre and they forgave taxes for five years. He did not have the labour wage scale that we have or the safety and so forth. In that you represent a large union, I am wondering if you have any comment about some of the stuff that is coming up that with this free trade it is indirectly or directly an attack on the labour movement or unions per se.

Mr. Goodison: I look at it as an attack on labour in that we have been successful in doing things in Canada which they have not been successful in doing in the United States. We have our medicare programs here and our pension structures, which are much better. We have our health and safety legislation, which is better. We have labour legislation with the automatic checkoff and the first-contract legislation, which is better than it is south of the border. There is no question about that. These are things which are going to appeal to people to move south to the sunbelt, as it is called.

The strange thing is that I deal with an employer in this province--and I will not mention his name--who did open up a plant in Columbia, South Carolina, and was able to operate there with wages and benefits roughly about 40 per cent of what he is paying in this province. He has now shut down that operation. He shut it down primarily because even with the lower cost, it happened to be in that particular incident more costly for him because he was not getting the productivity out of the people. That can happen as well.

Sure, we are going to be concerned, but we have gone through cutbacks in our organization and cutbacks in our membership as a result of the depression of 1981. Some people call it a recession, but it had the same effects. We have lost members and we are now starting to come back again.

I see industries leaving in this. I see the automotive industry as one that will be gone, detrimentally. In Mr. Neumann's area, I can see operations that are going to be gone as well. Some of the branch-plant operations, Worthington, Ladish, Koehring, etc., are all in jeopardy. If you are looking at it and saying we are going to wind up with fewer members, that may be.

Mr. Ferraro: This is the last question I have, Mr. Goodison. I have been on this committee along with some of the other members, Mr. Mackenzie and Mr. Haggerty, for three years almost, and without question, I think it is safe to say that the Canadian labour movement, certainly in Ontario, made its position known very quickly, and I think it is safe to say that the American labour movement until recently did not say a damned thing. Is that a result of the total American attitude towards free trade with Canada? It was obvious until a few months ago that the free trade agreement was not a big deal at all with the Americans. When we went to Washington, it was like, "Yah, well, big deal. So what?"

Mr. Callahan: They thought when he said "free trade" that they had to pay for lunch.

Mr. Ferraro: You made the statement where it is of concern to the American union people too. I am just wondering why in the hell did they take so long.

1540

Mr. Erlichman: It matches the situation in the general population in the sense that most Americans have never heard of Canada. They have very little notion of what is going on here. From the point of view of the impact on the American economy, we are their biggest trading partner but the impact is no where nearly as great. They certainly have been slow rising to it.

The point is that the deal hurts the labour movement in both countries. They tell us: "Well, we can go down to these right-to-work states, low-wage situations and so on." But they tell the workers in the United States, "We have people we can pay with those cheap Canadian dollars and whatever else."

They can play us off against each other directly there. That is one of the reasons you have people talking about free trade: so they can play the workers against each other. It is a kind of unhappy, indirect consequence.

But I think the reason why the Americans, and our union certainly, have come down against the trade deal--it still has a very much lower profile there; it is a higher profile than it used to be, just because the impact on the American economy of this deal is a hell of a lot smaller than the impact on us.

Mr. Ferraro: I guess what I was getting at is that if you assume they got the better of the deal--I do not think, from my perspective, that that is in doubt; I am talking about the Americans--and if you make the second assumption that the American worker says, "It's not good for me either," I would have thought they would have reacted a hell of a lot quicker.

Mr. Erlichman: The negative impact on them is not as great and therefore not as apparent as earlier. For us it is quite clear; we are so tied to the Americans in any case that it is like a 200-pound weight coming down on top of the labour movement here. The American labour movement has got a lot of other problems, to start with, so the impact would not have been as great.

Mr. Goodison: And they also react much more slowly down there. I would suggest the American Federation of Labour and Congress of Industrial Organizations is much more small-c conservative than the labour movement in Canada. As such, it takes a lot more. There have been some people in some of the organizations, such as Mr. Winpisinger, our international president, who is very politically oriented and active, and Lynn Williams, the Canadian who is president of the United Steelworkers of America, and so forth. They have been doing their homework for the AFL-CIO. It just takes a lot longer to get the wheels moving there.

Mr. Haggerty: Mr. Goodison, you mentioned other areas and other members. I thought for a minute you were going to hit Fort Erie with Fleet Industries. You kind of left that alone.

Mr. Goodison: That is part of aerospace.

Mr. Haggerty: Yes. But they have quite a--

Mr. Goodison: If there is no de Havilland or McDonnell Douglas, Fleet will not be around too long, will they?

Mr. Haggerty: No. I guess that is the point I am coming to. The takeover of de Havilland Aircraft--I do not know if you could call it that; I suppose in a sense it was a takeover--involved its commuter-type aircraft, the Dash line of aircraft. You also made reference to the Arrow back in 1958, I guess it would be. Was there any government subsidy given to McDonnell Douglas in the purchase of de Havilland? Were there any bonuses?

Mr. Goodison: Yes. They wrote off so many millions in debt--

Mr. Erlichman: There was a substantial write-off in debt. I do not have the details of the deal here. We do not represent the people at de Havilland.

Mr. Haggerty: But there were bonuses given to them.

Mr. Erlichman: It was a write-off of a substantial amount of debt to the government. The government had pumped several hundred million dollars into de Havilland, and that was never paid. Boeing did not come up and pay for that. A lot of that was written off, basically. I think that was the nature of the subsidy. There are other kinds of program subsidies in all the aerospace industry.

Mr. Haggerty: Was there any advantage, though, for Boeing besides the subsidies or the bonuses given to them in the purchase of de Havilland?

Mr. Goodison: The aircraft.

Mr. Haggerty: Pardon?

Mr. Goodison: The design for that style of aircraft. Boeing did not until then have commuter-style aircraft with the success of the Beaver, the Otter and the Dash-8. All those aircraft are ones that are coming into their own, and up until now, that has not been the forte of the US industry; so they have access to that.

The part of the deal where the write-off is, is that they must maintain the operation for X number of years in this country. They benefit in the sense that it is almost a "We will pay you stay here" type of thing. Once that is gone, what is to stop them from shutting down Downsview and moving it?

Mr. Haggerty: So the same thing could take place as happened with the Arrow. That was destroyed, but they walked off with all the technology. They even took the special skills in that particular area to move to the United States.

Mr. Goodison: With the Arrow, of course, it was just put to bed. It was there one day and gone the next. We paid plenty for that cancellation. They would not even sell the technology at that time. They had five aircraft that had flown and they were offered money for them by some of the industries south of the border. They could not sell them. The government burned them instead--cut them up with a torch.

Mr. Haggerty: Is there any possibility under a free trade agreement with the United States that all of the technology in the development and the production of the Dash aircraft could be just moved out and taken to the States?

Mr. Goodison: I think after the time with respect--

Mr. Haggerty: What is the timing of it?

Mr. Goodison: I do not have the specifics of the detail. They are available. They were all well published. I think after the time element, where the write-off of money is concerned, yes, they can do that; there is no question about it.

Mr. Haggerty: But there is the possibility that technology could go to the States?

Mr. Goodison: Yes. I just think that research and development in that industry will be dead in this country.

Mr. Chairman: Thank you very much. We appreciate your brief. It was helpful. We will certainly take it into consideration.

Mr. Goodison: Thank you. We hope this committee and this government come out with some strong positions with respect to the implementation of this program.

Mr. Chairman: Thank you. There are a couple of housekeeping matters that the committee should be aware of.

Mr. McLellan is preparing a briefing book for the committee for purposes of Washington and is aiming at having that available and in your offices on Monday, March 21, which is a week and a bit. If you have any ideas as to what you would like to see in it, please let him know.

Second, he is in the process of summarizing everything we have been hearing and trying to compartmentalize that, and he would not mind a little direction if there are some areas you would like to make certain he concentrates on.

Mr. Mackenzie: March 21, in terms of getting a look at it, will be a little late for me inasmuch as I am taking the week before off.

Mr. Chairman: I have the same problem.

Mr. Mackenzie: But I would appreciate if a copy of that is brought to Washington so at least I can go through it fairly quickly on the Sunday when I get back.

Mr. Chairman: He cannot get it to you somewhere else?

Mr. Mackenzie: Not unless it is ready before March 19, which is when I take off, actually.

Mr. McLellan: That is, by Friday.

Mr. Mackenzie: Yes. It is not essential; as long as I can get a look at it. Some of these things you have not got much control over.

Mr. McLellan: Yes.

Mr. Chairman: I have that problem too, although I think maybe you can--

Mr. Neumann: I am up north the week of the March 21.

Mr. McLellan: I was going to try to get it to press next Wednesday or Thursday. I guess most of you are gone on Fridays.

Mr. Mackenzie: While it would be useful, I am not sure there is much you can do about that. I would not want let that throw your plans.

Mr. McLellan: I think if there are addresses that we could send it to--with the chairman, I could send it to the States. In your case, if you are going to be in Washington, you might want to pick it up at the embassy on Tuesday or something.

One of the concerns last year was, we had it distributed the day before, or it came out that Saturday, and we found for some people it was just a bit too tight. I think for the benefit of the text if we have it in advance--

Mr. Mackenzie: Just given a time frame, I think at least in my case I am not going to want to worry about making those kinds of connections. As long as there is a copy for me; the clerk can see that it is brought down.

Mr. Chairman: It sounds as if it conceivably could possibly be done by Friday, March 18, it might be helpful to two or three members of the committee.

Mr. Neumann: What is happening?

Mr. Chairman: I am just suggesting to Mr. McLellan that it might be helpful to yourself, Mr. Mackenzie and myself if it could be done by then.

Mr. Neumann: It could be sent over to my office, and they could get it to me for the Monday.

Mr. Chairman: All right.

Mr. McLellan: I will do my best, but I think there could be problems; we have people scheduled for the Monday night.

Interjection.

Mr. McLellan: I will do my best to get it to you.

1550

Mr. Chairman: I remind you--and we do not need to discuss it now because we have another witness coming--that he is trying to take all of the views and information and compile them, and if there are some areas you feel we should be concentrating on, you can let him know, perhaps privately.

Our next witness is one who I am looking forward to with great anticipation, in part because her submission to us is going to be one that deals with an area that is very often ignored to some extent, and perhaps has been on both sides of the border. We have touched on it on a few occasions, but perhaps not as much as we should have in this committee. It of course has to do with the environment.

Our guest is Michelle Swenarchuk of the Canadian Environmental Law Association. Her brief is in front of you. Welcome to the committee. Perhaps you can lead us through your brief and then be prepared to answer some questions.

CANADIAN ENVIRONMENTAL LAW ASSOCIATION

Ms. Swenarchuk: I understand that committee members have just received the brief. Is that right?

Mr. Chairman: Yes. That is frankly the best way. If you can lead us through the highlights, that is the best way to make sure we read it. So much paper arrives in MPPs' offices.

Ms. Swenarchuk: We have got the deal here too if anyone wants a quick reference.

Let me first introduce my organization. I am one of the lawyers at the Canadian Environmental Law Association, which is a public interest

environmental group. We have been in existence since 1970 and we are now funded as a specialty law clinic by the Ontario legal aid plan. We represent individuals and groups in environmental legal proceedings and also do our own research and analysis and law reform advocacy work on various environmental issues.

We have a lot of concern about the terms of this agreement and have tried to do an analysis that is fairly strictly legal of the terms of the deal itself. That is what I am going to be presenting to you. As Ontario legislators, I think you have reason to be extremely concerned about the effect of the deal on your powers. I am going to be talking mostly about environmental issues, but they are rather massive issues, since particularly we are going to talk about natural resource regulation.

The first issue we talk about in the brief is energy, and I think this is the environmentally connected issue that most people know about in the deal. Here it will be familiar to you too, I am sure, that the provisions Canadians have used in the past to essentially conserve energy supplies, or to assure that we do not sell out our energy and leave Canadians unsupplied in the future, are basically no longer possible under this deal. The surplus test that has been applied by the National Energy Board in the past, and the least-cost-alternative test, are both now gone.

Articles 902 to 904 of the free trade agreement essentially prohibit Canadian governments from placing restrictions on energy exports. The restrictions that are no longer permitted include any price or tax difference imposed by Canada on exports to the United States, unless such measures apply equally in Canada. Even in times of energy shortage, or in times when Canadians recognize a need for conservation measures, we are still obliged to continue to supply the American market with energy in the same proportion of our total production that they had obtained in the previous three years.

Add to that the investment provisions of the deal--I am looking at page 3 now--and I think we have to expect more American direct ownership of Canadian energy supplies in the future.

What I find particularly ironic in the deal is that incentives--i.e., subsidies to energy companies--are specifically preserved in the energy sector in the deal, so it seems to me we are going to be in the worst possible position, which is that we will have increasing American penetration developing our energy resources at a more accelerated rate and we will then be in the position of selling the resource to the Americans and not being able to recoup through higher prices the incentives which they may have received from Canadian taxpayers in Canada.

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I think the provisions of the agreement have to be read with the current government's oft-stated energy development policy, which is essentially a megaproject policy, and Mr. Masse and his parliamentary secretary, Mr. Shields, have made it clear that is the direction this government intends to go.

Megaproject energy development is, in the view of environmentalists, absolutely the wrong way to go. We should be moving towards conservation of energy supplies and the development of our renewable energy supplies and soft energy paths. There are many downsides to megaproject development, including the effect on the geography in which the project occurs, damage to fisheries--

when we are talking about offshore development--and the massive mobilization of capital that is required for one of these developments which inevitably reduces the capital available for development of other industrial diversification schemes in whatever region of the country you are talking about.

In our view, the energy elements of the deal are exactly the wrong way to go. Our governments should be investing in conservation programs, the development of renewable energy sources and regional diversification.

Canadians need public policy planning oriented to Canadian domestic needs and long-term sustainability of these resources, not the accelerated exploitation and selloff which we now anticipate. We disagree profoundly with statements on energy by the Mulroney government that our biggest problem is not shortage, but abundance. This is a problem that the rest of the world would love to have. I think we are in the process of losing it.

What was almost more disturbing to us in reviewing the deal was to see that the same terms apply, in our view, to all our resource industries. In other words, just as we are prohibited from placing restrictions on energy exports to the US, we are similarly prohibited from restricting exports of any resource that we now export. Similarly, even in times of shortage or for purposes of conservation, we are still locked into supplying the American market with the same proportion of our total production as they have had in the previous three years.

Add to that that the deal precludes in the future, I think, some of the strategies that provincial governments have used up until now for economic diversification, including local resource processing and local procurement of supplies by resource companies. In Ontario, for example, we have a provision that logs felled in Ontario have to be processed here. The same provision exists right across the country. That provision is specifically preserved by the deal, which immediately raises the question of whether the Ontario government can any longer plan on such requirements for local processing as a means of diversifying the northern Ontario economy, for example. My reading of the deal says we cannot.

As environmentalists, our concern of course is that alternative methods of industrial or economic development are precluded by the deal, such as local processing of resources or requiring local purchasing of supplies. What that means is that more and more pressure falls back on primary extraction of the resource. That is why we come to the conclusion that the deal is going to mean a faster, accelerated pattern of extraction of Canadian primary materials and we are going to be set back in our long-term task of trying to diversify the Canadian economy away from that.

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The accelerated sellout, of course, has all the negative environmental impacts of unexamined, poorly planned economic extraction that is done simply because people need some means of economic survival.

We particularly wonder why the Ontario government is not more concerned about this. Looking at page 8 of the brief, we have reproduced for you section 92A of the Constitution, which was implemented in 1982 and which, as you know, specifically confirms the powers of the provinces to regulate "development, conservation and management of nonrenewable resources and forestry resources...including laws in relation to the rate of primary production

therefrom...development, conservation and management of sites and facilities in the province for the generation and production of electrical energy."

It seems to us that the free trade deal has removed that power fairly substantially from provincial governments. We find it ironic that Peter Lougheed, who fought so hard for that amendment to the Constitution, is one of the major promoters of the agreement. Here we have, it seems to me, a serious constitutional conflict between the federal power for international trade and this very explicit provincial power of provincial resource regulation.

Beyond that, our concern is that it seems the deal has removed from both levels of government the power to effectively regulate resource extraction, and the rapid market-driven exploitation of our resources will degrade our environment and deprive future generations of Canadians of economic and environmental values.

The provisions I am talking about I think will affect all Canadian natural resources. We have, in addition, specifically referred you to the fisheries question. The deal specifically allows the east coast provinces to continue to require local processing of their fish products. No other province has received that protection. As you have probably heard, there is a great deal of concern in British Columbia about 5,000 jobs, all of which again is going to throw those people back on more primary extraction. We wonder too about the authority of other governments, including Ontario's, to require local processing of whatever fisheries are contained here. I think you heard about that from the Deputy Minister of Natural Resources.

On the agriculture issue, we are not going to talk a great deal about the trade provisions of the agriculture section, except to note that even Donald Macdonald's commission did not advocate free trade in agriculture. Rather, we are particularly concerned about the provisions of the deal for harmonization of agricultural technical regulations in article 8, annex 708, etc. Has anyone raised this issue with you up to now?

The standards to be harmonized include animal quarantine restrictions, accreditation procedures, etc., and government working groups are going to be established to harmonize standards. We were particularly concerned to see the inclusion in these standards of something called unavoidable contaminants in agricultural products. We do not concede in Canada that there are unavoidable contaminants in agricultural products. That term seems to be an American import in itself. As a group that is very involved in the whole question of toxics and contaminants regulation, we are very disturbed to see that this concept was accepted by our government in the deal.

We have even more concern about the provisions for the harmonization of pesticide standards. Has this been discussed here at all?

Mr. Chairman: Not in detail.

Mr. Neumann: Not in detail.

Mr. Mackenzie: It has been touched on.

Ms. Swenarchuk: This is an area in which my organization has worked very extensively. My colleague Toby Vigod is probably an acknowledged expert on the question of pesticides regulation in Canada. We have provided you some statistics on page 12 on the enormous and increasing use of pesticides in agriculture to bring to your attention the need for regulation of standards in the area.

It is important to recall that a pesticide is essentially a poison. The use of pesticides involves the deliberate application to land or water of chemicals that are intended to be poisonous to selected organisms. Two categories of undesirable effects from pesticide use have been identified. These are the development of resistance in pest species and the impact on nontarget species and organisms, including humans. Even the United Nations has stated that "even when properly used, chemical pesticides have a number of unavoidable side-effects." I have provided you some examples of pesticide disasters.

In Canada, pesticide regulation is legally divided between the federal and provincial governments. There is at this time a great deal of activity in the area of pesticide regulation at the federal level; that is, we anticipated some activity and some reform at that level. Some of you will have heard about last year's long alachlor pesticide hearings and the deregistration of this American-made pesticide in Canada, which has been upheld at the federal level to this time.

We are very concerned that the provisions of this deal will essentially stop the move towards pesticide regulation reform in Canada because there is very explicitly now a tie between American and Canadian standards to be negotiated under this deal.

One of the issues that particularly concerns us in this area is that the schedule of the free trade agreement, which requires the harmonization of pesticide standards, specifically imports into the harmonized standards the concept of risk-benefit analysis. This is a concept that is used in the United States and is contained in its legislation that has not been widely imported into Canada. There are real problems with it.

In the US, congressional investigators have concluded that the state of the art in quantifying benefits is primitive and that studies estimating benefits may mislead agency decision-makers and the public. These analyses cannot easily deal with questions of equity, given that the cost, risks and benefits are often borne by different groups within the society. It is the position of my organization that pesticide regulation, which has fundamental impacts on the health of Canadians, should be focused on safety and not on economic benefits as a balance.

It is of particular concern at this time that our government would explicitly tie pesticide regulation here to American regulations because the Environmental Protection Agency in the United States is at this time quite systemically downgrading its standards for pesticide regulation. In the last seven or eight years, the EPA budget has been cut, I think, by now probably more than 50 per cent. In appendix B to the brief, which we have provided for you, we have listed some of the examples of the reduced scrutiny and the reduced level of protection the EPA is now extending to poisonous toxic materials in the United States.

One example is citing lack of funds. The EPA has announced that it is dropping its primary tests for measuring the exposure of humans to toxic substances, but we are tying our regulation to testing procedures which the schedule says do not even have to be carried out in Canada. In other words, it is these lowered tests that may be setting standards for us.

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It has lowered its assessment of the cancer-causing potential of dioxin, which is one of the most carcinogenic materials around, to 1/16 of the

previous estimate, by saying that dioxin is probably a promoter of other cancer-causing agents rather than an initiator. What is the difference? If the effect of dioxin is still that someone gets cancer, it does not really matter whether it was a promoter or an initiator.

It is now going to continue use of alachlor in the United States, which we have banned in Canada. There are other examples in the article, which you can look at, but to be at this time, without notifying any of us, of course, importing these American approaches and standards of pesticides into Canada is a very retrograde step environmentally.

I also point out that, like most environmental public interest groups, one of our areas of emphasis has always been expanded public participation in law reform and standard setting. We have a particular concern that this whole question of pesticide regulation was without any participation from any of us or any of you, just written into the deal, and we are now stuck with the implications.

Then, moving on from pesticides, we have the chapter of the deal which talks about the harmonization of technical standards overall. The standards are to present "no disguised barriers to trade" as provided in article 603 of the deal:

"Neither party shall maintain or introduce standards-related measures or procedures for product approval that would create unnecessary obstacles to trade between the territories of the parties."

What is an unnecessary obstacle to trade? The deal allows a difference in standards where there is "a legitimate domestic objective," which could include protection of health safety and the environment or consumer interests.

This raises the very important question of whether harmonized standard setting overall, outside of the pesticides area which we have looked at, is going to mean higher or lower environmental standards.

There is a great diversity of standards between the American and Canadian federal and state and provincial laws. In some areas, their standards are higher than ours, and in some areas ours are higher.

This is an area that we as Canadians are going to have to research very substantially, starting now. What we can do about it I am not sure, as they have set up working groups between the two federal governments that presumably exclude all of us and all of you, but the research has to be done.

At the federal level in both Canada and the United States, the current administrations have downgraded environmental protection. The Mulroney government here has also substantially gutted the federal environment department--

Mr. Callahan: Just on that point, recognizing that you are a member of the legal profession, do I read from this that you are saying we do have a say about the environment in so far as it affects Ontario, that it is not a federal matter and could be considered to be a provincial matter where we have jurisdiction to object and the US will require our concurrence?

Ms. Swenarchuk: Whether the US requires provincial concurrence, I think is one of the constitutional questions in the deal. I am not sure if I am understanding your question correctly. What I would say is that the deal

does provide on paper for the maintenance of environmental standards. However, one of the questions is: When these working groups of US and Canadian federal individuals are harmonizing the standards, what are they going to consider to be a defensible environmental standard? For example--

Mr. Callahan: And are they infringing on a matter that may also be within the jurisdiction of the province?

Ms. Swenarchuk: Yes. That issue also arises. There is the uncertainty of what a legitimate domestic standard is. What do we have to use to convince them to leave a given environmental standard in place, for example?

Again, as a public interest group, we also have a great deal of concern that there is no provision for public participation in this process. In Canada there are literally hundreds of environmental groups from one end of the country to the other that are involved in pesticide issues, in education, in learning for themselves what the standards are and in advocating for better standards. We are one of those groups. I am wondering now what happens to our expertise and any of the areas we might want to work in. There has been no provision for people like us, the harmonization of standards.

Looking at the service sector provisions of the deal, as we say, starting out, I think Canadians have seriously ignored the importance of the service sector in this country; it provides two thirds of our income and 70 per cent of our jobs. For example, the Macdonald commission, which commissioned approximately 70 volumes of economic study, did not look at one service sector.

Without much debate and in keeping with the American international trade policy, our government has signed a free trade agreement which provides for essentially free trade in services. That gives American companies, as I am sure you have heard, the right of national treatment in Canada.

When we look at some of the environmental implications of that, the first question that arises is the question of job loss in the service sector. If there is going to be job loss in the service sector, again people will be thrown back more in the traditional Canadian mode of primary resource extraction. I think in areas like data processing it has been pretty well documented by now that we have experienced job loss up to now and will experience more.

Specifically, the deal provides for free trade in a number of service sector areas that relate specifically to the environment. I have listed some of them on page 19: soil preparation, crop planting, cultivating and protection, crop harvesting, farm management, landscape and horticultural services, crop preparation, livestock and animal specialty services, forestry services, such as reforestation and firefighting and mining services. Then there is a whole schedule in the deal on opening up the tourism sector.

Add to that the monopoly section of the deal, subsection 20(10), which in our view caps the public sector in a sense. It means that when any of our governments wish to establish a public sector monopoly over a given service, that can be done only with full compensation to any American companies that would have been affected, that might have wanted to operate in that sector.

When we look then at the service sector implications for the environment, what we see is again a limitation on the powers of our governments, provincial certainly, to come up with new and creative

initiatives for diversification of the Ontario economy. This is particularly true in the north. For example, can you now talk about a local forest authority to manage a forest in the interests of the local people? I think you will have trouble. Can you talk about local assisted development of tourism projects to diversify the economy in a forested area? I think there would be difficulty with that too.

American companies, it appears, will be entitled to equal access to any subsidies, for example, available to Canadian companies. First of all, I do not think you can lift a given part of the forest out of the general economic sphere and have it managed by local people for their own benefit, either for forestry, for regeneration or tourism, without having claims for compensation from the whole spectrum of the American forest service industry.

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Then there is the question of current Ontario reforestation practices. Reforestation is a service. This is one area that I work in. We now have 70 per cent of forested land in Ontario covered by forest management agreements in which the government of Ontario pays the forest company to regenerate the forest land. It has not been widely acknowledged that subsidies for regeneration were one of the targets of the American lumber industry in the softwood lumber deal. It is my view that that position by the American industry was part of the reason that British Columbia has now moved to a forest regulation plan in which industry no longer gets subsidies for reforestation.

Simply looking at the monopoly and service sector questions for Ontario, what is the effect on Ontario forest regulation of the free trade deal, which I think may lead the American forest industry to argue that our regeneration subsidies are an anticompetitive practice. This is our system over 70 per cent of our forest land. I have a lot of problems with the system, but not along the lines that the American industry has.

These are just some of the examples that have come to us so far about possible problems in resource management related to the deal, and I think we will probably think of more as time goes on.

Turning to the preservation of American trade law in the deal, it seems clear to me from reading the dispute mechanism resolution system that American trade law is preserved. In fact, it is incorporated into that section of the agreement. It operates in Canada now too, and this is the area, through countervail and antidumping complaints, that Canadian products, particularly natural resources, have been attacked in the past.

These disputes have all turned on the American concept of what constitutes subsidies in production, but since the Canadian government failed to obtain that all-important definition of "subsidy" during these negotiations, the deal does not prevent American companies from raising subsidy complaints in the future. The disputes mechanism certainly is no protection, in my view.

On page 22 we have given you a partial list of some of the Canadian government initiatives that have been used in the past, subsidies to further environmental protection, whether for recycling, pulp and paper mill modernization or energy conservation. One of the approaches that Canadian governments have used to convince industry to enter into environmental protection programs has been to subsidize part of the cost. That kind of, as

we say, discretionary subsidy does not exist in the United States, and so I think we face the prospect in the future of American industries right across the spectrum arguing that in a given industry, because there was a pollution abatement subsidy, the American industry is now at a disadvantage, and I can see us ending up in countervail wars again.

That approach actually is a fairly important one in Canada for environmental protection, so we are quite concerned about the impacts of that one.

I have just briefly reminded you that we have over 120 native land claims going on in this country at this time. Some of them have been going on for 50 years. Some of them might well have gone on for 200 or 300 years, but with this pattern we see of accelerated resource depletion and contracted government powers, we are concerned that native people are going to have an even harder time resolving these claims.

We had some hope in the last few years that governments in Canada really were moving towards the kind of position on environmental protection that I am advocating here: namely, a position which sees economic development and environmental protection as indivisible. We were particularly pleased that the first ministers of Canada adopted the report of the National Task Force on Environment and Economy last December. We found it a little strange, actually, that it happened at the same time that all the ministers were talking about the free trade agreement, because it seemed so clear to us that the agreement and the way it was negotiated and its environmental impacts amounted to a negation of what that task force report was about.

On page 24, I have given you some of the commentary and recommendations from the task force, and this was a task force of industry, environmental groups and government ministers. I believe Mr. Bradley was one of the task force members.

"Governments will have to change the way they approach the environment and the economy. They must integrate the environmental input into decision-making at the highest level. Environmental considerations cannot be an add-on, an afterthought. They must be integral to economic policymaking."

Then in recommendation 5.3, they said specifically, "Canada should explore and promote mechanisms to ensure that environmentally sound economic development is an important component in international discussions and negotiations dealing with development and trade."

Of course, that was not done at all with this free trade agreement. In fact, the position of the Mulroney government, which I have shown at the bottom of the page, is that the free trade agreement is not an environmental agreement, that the environment was not a subject for negotiations and environmental matters are not included in the text of the agreement. It indicates clearly that they have not recognized that they just adopted a report which says basically every trade agreement is an environmental agreement also and environmental impacts have to be looked at.

In summary, our concern is that the deal entrenches a market-oriented approach to economic decision-making which will accelerate resource development in Canada and put added stress on the environment. We are concerned with the process of it, which included no environmental input at government levels, federal or provincial, or from environmental groups, and ultimately that the surrender of government powers is going to make it more

difficult for legislators and for us, as advocates, to move towards enhanced environmental protection in the future.

Mr. Chairman: Thank you very much for a very thorough survey. It included a lot of matters that have been touched on but not pursued. Your comments on the federal government's reply indicate it is not atypical of its reaction in a lot of sectors, frankly.

Mr. Mackenzie: Let me say that I think it is almost a unique analysis and presentation, compared to the presentations that have been made to us. It certainly had some impact on me, and it is one that I will be taking another look at very carefully. I congratulate you on the presentation you have made, and I think I am just going to be general.

There are three things that I jotted down as you were going through the points that you made. I had not spotted the unavoidable contaminants bit, which disturbs me no end, because if we have not decided what are subsidies, for example, and are going to spend the next five to seven years trying to arrive at what are subsidies--something that most negotiators would never think of; having an agreement in place before you have decided how and where you can get hurt--it seems to me that we could very well be in the same kind of hassle for a long period of time as to what constitutes an unavoidable contaminant. I am just wondering how we are going to resolve that and what it is going to mean in terms of some of the pesticides that will be able to be used in this country.

Ms. Swenarchuk: We have the same concern, and I think we have to be brutally realistic. On that area of negotiations, as everywhere else, we are 10 per cent and they are 90 per cent. Given what our negotiators did here, I do not have a lot of faith that they are going to stand out for higher standards where we should be holding out for them and particularly that they would go so far as to import risk-benefit analysis even before all the other negotiations begin.

Mr. Mackenzie: It scares me right off the bat when we talk about risk-benefit.

Ms. Swenarchuk: I think it shows the orientation of our government here. I do not think they are very serious about environmental protection.

Mr. Mackenzie: The second of the three points I wanted to make is, you dealt right off the bat with the energy supply issue and the potential opening up to further American demands. I could not help but think, as you did it, of the presentation we had from the natural gas industry, which told us, if their figures are accurate, that we had, at the current level of use, an approved 30-year supply of natural gas. When we asked them what the current level of use was, they said three trillion cubic feet a year. We also asked them what was being shipped now to the US and they said two trillion cubic feet were being used here and one trillion cubic feet were going to the United States. They obviously were interested also in exporting more to the states.

I asked them at that point what was the use in the United States a year and it was 18 trillion cubic feet a year. I guess the implications that really scare the devil out of me are that a supply, where we have convinced Canadians to switch to it in large numbers and we have an increasing use even here, may be up for grabs and if we do not have the ability to put some restrictions on it, we have a natural gas proven supply that would last five to seven years or something like that in Canada, assuming, of course, they got all of it, which I do not suppose they ever would.

There has been other testimony to this fact, but you feel that we really are tied in to not putting any unfair restrictions in terms of exports to the United States.

Ms. Swenarchuk: I think we are tied into not putting any restrictions.

Mr. Mackenzie: Any restrictions?

Ms. Swenarchuk: To the extent that we can use restrictions because of short supply here or for purposes of conservation, we are still tied into supplying them with the same proportion of the market that they have had in the previous three years. The deal does not use the word "unfair restrictions," it uses "restrictions" and then defines it very broadly.

Mr. Mackenzie: We may be in the fight of our life just to restrict any more, even to try to keep it at the current exports in the deal.

Ms. Swenarchuk: Sorry?

Mr. Mackenzie: We could be involved in the fight of our lives just to restrict the exports to the current level.

Ms. Swenarchuk: Exactly. Aside from instituting conservation programs or alleging shortage of supply here, aside from those two exceptions, I do not think we have any power to restrict the rate of export at all. If the industry decided it wanted to export 18 trillion cubic feet per year to the US, it seems to me it could start doing it now. Then that becomes the base for the three-year calculation from then on, rather than the one trillion they are exporting now. I think that is essentially what has happened; the government powers to regulate the export have been lifted totally and now, essentially, industry has the full power to decide how much is going to be exported.

Mr. Mackenzie: Which I think is what industry wanted from the beginning.

Ms. Swenarchuk: And they got it.

Mr. Mackenzie: It would appear that either our government did not know what the hell it was doing or it completely sold us out in the negotiations.

Mr. Haggerty: That is the Conservative energy policy; that is what Pat Carney said.

Mr. Mackenzie: There are others who want to ask questions, but the third point that bothers me a bit is that we have had some legal authorities before the committee in earlier sessions, and the question has been raised as to just what power Ontario does have in terms of those areas where the implementation is going to infringe on Ontario's jurisdiction to some extent.

I did not feel very happy after the comments that we had before this committee. There seemed to be a general feeling that we really may not have an awful lot of clout, if we get into a legal battle, in terms of what the federal government can do with this trade analysis. One of the results of that is that this committee has commissioned a study of those areas that do infringe on Ontario's jurisdiction and what, if anything, might be done about it.

I guess it is a huge area, and maybe it is a little unfair, but I am just wondering if you have any comments as to whether your reading of the agreement is that we still might have some clout in Ontario if the government has the guts to use it.

Ms. Swenarchuk: I am not a constitutional lawyer and I did not do a great deal of research there. What I do see is, I think, on the face of it, a clear conflict between the powers that have been lifted by the deal from the Ontario government and the constitutional right of the provinces to regulate resources. I think there are also rights in the area of services and other areas that have not been widely discussed yet that should be investigated.

The only answer you could have to your question would have to come from the Supreme Court of Canada on a reference. I think there are issues there that definitely should be pursued, and I am concerned that the Ontario government has not pursued the constitutional question more broadly than just talking about the wine industry. It seems to me that the constitutional conflicts are much more numerous than that.

Mr. Mackenzie: What you are saying clearly indicates that it may not be just the free trade agreement that we have got ourselves on the table now, but we have ended up giving up a heck of a lot in many areas of Ontario's jurisdiction without any kind of negotiation or agreement at all.

Ms. Swenarchuk: Exactly. And then the deal is very comprehensive. It is very well drafted. Recall for a moment that there is a section which says that "state" or "province" in the deal means local government as well. So the city of Toronto had better take a look at that when it starts devising occupational or environmental health programs, because there are health implications in it, yet it is very broad.

Mr. Chairman: I should not interject here, and I do this only for information purposes. I have made inquiries of the Ministry of the Environment and they inform me they are doing a survey of environmental concerns--I rather expect this brief may help them with it--which they hope to have prepared by April. We are hoping to have representatives of the ministry before the committee when that is available.

Go ahead, Mr. Mackenzie. That is just for information purposes. -

Mr. Mackenzie: It really just underlines a growing concern I have had, that we have reached a stage in this agreement that is not just a fight over an agreement but where somebody should be hauled up on the carpet with treason charges or something damn close to it in this country. I am finished, Mr. Chairman.

Mr. Neumann: I am interested in the entire brief. I want to commend you for it. It is very thorough and thought provoking, to say the least.

With respect to the energy issue, which is something I am very interested in and concerned about, I asked a question of Mr. Crispo earlier this morning about whether the agreement would interfere with the ability of the federal government to do the kinds of things our governments did during the 1970s, such as taxing exports of crude and subsidizing imports. On reflection, it was Mr. Lipsey yesterday, not Mr. Crispo today.

The response I got was that we are prohibited from imposing an export tax. However, we are not prohibited from imposing a general tax, which would go not just on exports but also on the domestic products.

Ms. Swenarchuk: Agreed.

Mr. Neumann: My question therefore is: When you said there would be no way the government could recover from American-owned companies the incentives that were given to the energy industry, could it not recover by imposing a wellhead tax?

Ms. Swenarchuk: It could recover, in my view, by imposing the same tax on the energy product for both domestic and export use. So there could be an industry-wide tax, yes, but not simply from American companies.

Mr. Neumann: But the deficiency there would be that we could not do something that would favour Canadian consumers or Canadian industries in any way?

Ms. Swenarchuk: That is right, yes. That is my position.

Mr. Neumann: You have outlined a number of concerns related to the environment directly and indirectly. Do you see any benefits to this agreement?

Ms. Swenarchuk: The one area where, as I said, an enormous amount of research is required is the question of technical standards, a harmonization of technical standards. There are some areas where American standards are better than ours; there are some areas where ours are better than theirs. If, in those areas where theirs are better, we adopt the better standards, then that is a benefit. But I think we do not know yet whether that is what is going to happen, and there is a tremendous uncertainty there. It is possible that in those areas, as I say, if we move to the higher standard, so much the better, but I do not really know how the working groups are going to operate.

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Mr. Neumann: Which of the two nations in this agreement do you feel has the strongest political will to deal toughly with polluters and environmental issues?

Ms. Swenarchuk: I would give failing marks to both federal governments. Ontario is definitely a leader in Canada in terms of environmental protection, and there are some states in the US that are better than other states. I do not think it is possible to generalize; there is just an enormous diversity in the regulations. But I do not think either federal government comes off very well.

Mr. Neumann: It is interesting that you put it in that context. That raises the whole issue that was touched on earlier, the area of provincial responsibility and rights. Since you made a distinction between the federal government and what Ontario is doing, do you see anything that would prevent us from continuing that course towards more implementation of control over pollution?

Ms. Swenarchuk: Yes. American industry challenges to subsidies in Canada, including Ontario, I think, are a potential real problem in environmental protection. The accelerated resource depletion is a problem. In the field that I perhaps know the best, resources, forestry, I think subsidized regeneration may become more difficult. Those are some areas that have come to us immediately. In terms of overall standards, as I say, we do not know how that is going to go.

Mr. Neumann: One other aspect of your presentation I found very interesting. As a Canadian who is a bit of a historian, I know that early development of Canada was resource-based and to some degree our economy is still resource-based. Mr. Crispo, in his presentation, said he felt that if we did not go for this agreement, we would become more hewers of wood and drawers of water and that this agreement would allow us to be more manufacturing-based rather than resource-based. Do you agree with that perception? It seems to run counter to what you said in terms of our ability to require processing of resources onsite.

Ms. Swenarchuk: Exactly. I think it significantly interferes with the Canadian economic goal that has always been here, which is to diversify the economy beyond mere extraction and to increase our processing in Canada of our own natural resources. I think that becomes more difficult.

I also think that all the economists who argue as he is arguing there are implicitly saying that we have gained access to the American market. My reading of the dispute resolution mechanism is that we do not have guaranteed access at all. We have not turned off American countervail and antidumping arguments, which by the way mostly happen in the resource sector, so I am not able to agree with him.

Mr. Neumann: There are people who combine the fields of economics and environmental studies, and some of them suggest the only way that we as a society are really going to come to grips with the environment is to internalize the external costs of production so that a consumer pays the full cost of the product, which includes the diseconomies that occur in the environment that we end up picking up.

Do you understand what I am getting at? A product is produced. There may be a price that is less than it should be if it were to pick up the environmental cost. The free trade agreement seems to be pushing our economy more towards a pure free enterprise, market-driven economy.

Ms. Swenarchuk: Right.

Mr. Neumann: Do you think that would lessen our ability to move in that kind of direction?

Ms. Swenarchuk: Yes, I think it lessens our ability to do that.

Mr. Neumann: In what way?

Ms. Swenarchuk: Implicit in the agreement is accelerated use of our natural environment. There are no protections in the agreement, and I think there are reduced strategies available to us, precisely to recover the cost of that use. So I think it is moving in the opposite direction from what you are outlining.

Mr. Villeneuve: I also thank you for your presentation. It was coming from a totally different area than what we have heard over the last number of days.

I refer to the bottom of page 18 and at the top of page 19. I am, to some degree, interested in agriculture and I would like further comments on what you foresee as problem areas. I will read: "Chapter 14 of annex 1408 of the deal lists a number of services now open for American penetration with direct environmental consequences. These include soil preparation, crop planting, cultivating and protection...." Could you expand on that for me?

Ms. Swenarchuk: I am not very knowledgeable about agricultural issues, but what we predict here and what the deal provides for is the establishment by American agricultural business, for example, in Canada of these services. That is, it allows them to come into Canada to provide these kinds of services. The question of whether they are entitled to any subsidies that Canadian governments have in that sector is still an open question.

In any event, what we see here is the penetration into the Canadian agricultural sector of American service corporations managing and providing these services for profit, of course. We are concerned about reduced Canadian employment, for one thing, and reduced opportunities for Canadians to establish businesses in those sectors.

Mr. Villeneuve: That is one I certainly had not thought of. I cannot see where that would be of great concern because I would certainly think that they would be employing local people if they were here. Does this have any environmental effect? You are talking economics here, I gather, as opposed to the environment. This is straight economics and not environmental, I gather.

Ms. Swenarchuk: I hope it is not also environmental, but I think the concern of Canadian agriculturalists in this area would be similar.

If I may digress for a moment, there are concerns about the fact that this deal provides for penetration by American service industries in the health care field. You will find that difficult to read in the deal because they did not list all the social services affected. They just listed numbers for them. But we can expect to have more American-managed hospitals in Canada, every type of hospital you ever heard of, and social services.

There are concerns that the quality of service in a purely profit-oriented-managed hospital will deteriorate, that the wage rates will deteriorate and that employment will deteriorate. That is the pattern in these American-managed hospitals. We have a few of them already. I think there is that concern as well about American penetration in the service sector, including something like agricultural services.

The other question is whether they even have to establish here in order to have the right of national treatment. I do not think they do have to establish here. You could have American-managed approaches to agriculture coming from somewhere in the US. It would be quite hard for us to regulate their decision-making. That could have an environmental impact. They do not have to establish here to get the right of national treatment.

1650

Mr. Haggerty: I want to thank you for your submission this afternoon too. It is too bad that Professor Crispo was not here this afternoon to listen to some of the different views that have been taken. Some of your suggestions are right on.

I think one of the comments when he was talking about it was that it is more of a free-wheeling deal. He thinks this is a great thing. Often, he talked about the western provinces. Yes, you might say we are one of the leaders in employment and in production of goods here in Ontario. It comes by form of cheap energy; that is, through the renewable resources in energy, the hydro plants that we have here. You can take northern Ontario; this is what has helped to develop it.

On page 2 you talk about selling natural gas and oil to the United States, where we are moving south. If you look at what is taking place in Ontario, you might say it is one of the southernmost parts of Canada, the energy has moved down to this area or has been in this area, and this is where the jobs have been created. Once you start exporting energy south, that is when the more industrialized of the 51 states that are there, the midwestern states, will take advantage of that. The jobs are going to be created there. That is where the industrial base will be the minute you export the energy.

Ms. Swenarchuk: The Americans are quite clear on this, that they have a coup in the energy section.

Mr. Haggerty: This is right. This is the message that is not getting to the western provinces. Really, if they hang on to the energy out there, they can have the same industrial base that we have here. They certainly need it out there.

I was on the select committee on Ontario Hydro affairs when we were dealing with Ontario Hydro and energy options. In the early or middle 1970s, the United States ran into difficulties in its nuclear development programs. The light water reactor that was constructed there did not have the security that the heavy water reactor here in Ontario had.

You talk about technology. It is here through Ontario Hydro and the area of nuclear development. They had the Three Mile Island incident and that really backed them off. They mothballed many of the nuclear plants in the western part of the United States, particularly northwest of the Great Lakes basin. Really, the only thing that has saved them so far is conservation of energy, because they have not developed any new plants; they have not brought on any coal-fired plants. I sense that this deal is really going to bail them out of their energy crisis. Meanwhile, it is going to deplete our nonrenewable resources here.

I suppose what they are talking about now in the United States is that they are going back to constructing coal-fired generating plants. Generation will be based upon coal-fired plants. I hope they get the technology there to reduce the acid rain. It may not be there, and that is coming back to the point of your group on the environmental area. I would be watching this very closely. If they go that route, you are going to see more acid rain than ever before coming up the Great Lakes basin from that. This is the move they are going into, because they do not have the capital to go forward with nuclear development any more. They can survive on the backs of the Canadians up here, while we reduce our natural resources in this area.

In the long run it is going to be a failure on the part of the governments of Canada that they did not secure energy supply here for the future generations, in the year 2000 and beyond.

Have you done any studies in that particular area at all, the American side of generation?

Ms. Swenarchuk: Some of my colleagues at the Canadian Environment Law Association have, and there are other environmental groups in the country that have worked on energy. We are not promoters of nuclear energy, that is for sure. We are not sorry that the American nuclear energy has gone down, but we certainly think the evidence is there that the elimination of the surplus test which protected Canadian suppliers and the whole scheme of the deal means cheap energy to the US.

Mr. Haggerty: Sweet energy right now, but expensive to Canadians later on.

Ms. Swenarchuk: Oh yes, for sure.

Mrs. Grier: I appreciate the opportunity of asking questions at the end of what has been a long day for the committee. I think it is an excellent brief and a very frightening one. I want to thank CELA for having put it on the table in the context of all the others we have received.

In response to the question from Mr. Neumann, you showed, I thought, a gleam of optimism when you talked about harmonizing standards. You allowed the possibility that perhaps the higher standards might prevail. I do not share that optimism. You were not optimistic, but you allowed as how it could perhaps happen.

Ms. Swenarchuk: I think you have to allow for the possibility. I am not optimistic either, but we are simply saying legally that the possibility was there.

Mrs. Grier: We have been talking about environmental regulation, approved regulations; has it ever happened that industries have ever moved to or accepted a higher standard?

Ms. Swenarchuk: I could not answer that question categorically one way or the other. I do not know, frankly; there may be examples. I think we can get a more realistic picture by looking at how American countervail and antidumping laws have affected environmental standards here. I could take a couple of hours to talk to you about the softwood lumber deal, but I will just do it very briefly.

Part of the goal of the American lumber industry in that deal was an attack on what it called noncompetitive roadbuilding and forest regeneration subsidies. That was not well publicized at the time. Under the terms of the softwood deal, any province that wanted to have the 15 per cent tariff removed from its products had essentially to negotiate with Washington, which is what British Columbia did. BC's new forest regulation scheme, in place since December, was approved by Washington. That is offensive enough to me, but part of that new scheme is the elimination of regeneration subsidies to industry in BC.

That, to me, is more representative of how these things are going to go. American industry does not care about improving environmental standards here or in the US. They would rather have them lowered, so that is not going to be their goal, whether it is countervail actions or harmonization.

But, strictly speaking, I would be dishonest if I said categorically it is impossible. There may be some standards that will move to a higher standard; there probably will not be. My working example is the softwood deal. I think the environment lost on that one.

Mrs. Grier: We have embarked in this province on a couple of initiatives to improve our standards. I am thinking of the municipal-industrial strategy for abatement and the current review of regulation 308. Do you see some impact by the free trade deal on the process--let us take MISA--that is now place of industries and committees looking at regulations because many of those sectors are not going to have regulations completed for them until after the free trade deal is in place? Are we perhaps already jeopardized?

Ms. Swenarchuk: I think the preservation of American trade law countervail and antidumping law and the failure of the government to achieve a definition of subsidy means that many of our approaches to environmental protection may be challenged in the future by American industry. It seems to me that these two are also a possibility and that there will be this uncertainty here until subsidy definitions are shaken down.

The uncertainty will continue in the future, in that amendments to American trade law are also incorporated into the deal, if you can imagine a government signing an agreement now which ties it to laws in another country not yet even made. But that has been done. So I think the uncertainty will go on for a long time.

Our overall conclusion is that it is going to be more difficult for us to lobby for environmental protection and it is going to be more difficult for Canadian legislators to legislate environmental protection.

1700

Mrs. Grier: In your section on the pesticides you flagged the prospect of public policy groups, such as your own, and the Canadian government being required to lobby in the US for standards that affect Canada. Given the lack of success we have had in lobbying the US on acid rain, do you see any prospect? How are you--CELA--going to be able to lobby in Washington around pesticide regulations?

Ms. Swenarchuk: Oh, we can lobby, but we are not very optimistic of our chances of success. The Canadians already go to Washington to lobby--I am sure you are aware of that through Great Lakes United and whatever. But when I make that statement, it is not because we think this an optimistic situation. We are just saying it is ridiculous as Canadians to be put in that position.

Mrs. Grier: I was very pleased that you tied in the Brundtland report and the support at least that has been given it by both the federal and provincial governments. One of the things that puzzled me as I read that part of the report was that I had occasion recently to meet with the environment committee of the Canadian Manufacturers' Association. The industry people there were certainly indicating their support for Brundtland and that approach, and yet the same industry people are on record as being very much in favour of the free trade deal. What does that say about what our attitude is to Brundtland?

Ms. Swenarchuk: I think the Prime Minister's position that the deal is not an environmental deal and has no environmental implications indicates that he and the federal government have not grasped at all what the Brundtland report is about, which is that economic development should be reconciled with environmental protection.

Mrs. Grier: I never expected the Prime Minister to grasp it, but I thought that the 17 members of the task force had grasped it, and I am now not sure that they have.

Ms. Swenarchuk: Neither am I.

Mrs. Grier: The energy one has had a lot of attention focused on it. I wonder, in your opinion, whether the free trade agreement has accelerated the recent announcement about the James Bay project and the Quebec government's speed to get on with the vast initiative?

Ms. Swenarchuk: I think the free trade agreement has provided a kind of perpetual protection for Mr. Bourassa's policy, which since the early 1970s has been maximization of megaprojects in Quebec. I think that one would have happened anyway, probably because it is so fundamental to his economic development. But I think we are also going to be looking at tar sands and offshore developments that will be probably accelerated by the deal.

Mrs. Grier: And the net effect will be that any attempts to go for soft energy paths or conservation are going to be doomed to failure? That is really what you are saying?

Ms. Swenarchuk: Exactly, yes.

Mrs. Grier: I was pleased to hear from the chairman that our Ministry of the Environment is doing some kind of examination of what kind of jurisdiction we might have. Are the public policy groups also looking at that? You have flagged the Pesticides Act. Are there other specifics that perhaps have gone as yet unnoticed in areas of jurisdiction where we might be able to demonstrate exclusive provincial responsibility?

Ms. Swenarchuk: It is something we would like the Ontario government to give us the staff to do, actually. At this point, I cannot give you any other specific examples, but certainly there is work going on in that area.

Mrs. Grier: And you have not been involved in the study that our ministry, we now hear, is doing?

Ms. Swenarchuk: No.

Mr. Neumann: I want to follow up on the points raised by Mrs. Grier and related to your answer. I think, in tying together two of your answers, first of all, you did show a note of optimism that if the higher standards on both sides could be harmonized, we would all be better off. I really do believe we would be, if that could happen, because we would then have a North-American-wide higher standard and industries would not be able to play province against state and provinces against provinces.

Ms. Swenarchuk: Certainly, the higher standards would benefit all.

Mr. Neumann: However, in reading and relating the two answers, on another issue I asked which country has the strongest political will to deal with environmental issues, and you said neither of them.

Ms. Swenarchuk: At the federal level.

Mr. Neumann: At the federal level; and it is the federal level that will be harmonizing these regulations. So it seems to me that we are likely to end up with the lower standards in the harmonization rather than the higher, if that is indeed the case.

Ms. Swenarchuk: That is my concern, yes.

Mr. Chairman: You have given us an awful lot to conjugate on. I am reminded by some of the questioning of an attempt some of us made, when we were in Washington a year ago, to discuss acid rain with congressmen. I do not think I can think of any exceptions to the rule that we got the interest of all of the congressmen--we were talking particularly to a Northeast-Midwest coalition--who were downwind from Ontario and none of those who were upwind. That may be part of reality.

I appreciate this document. As I say, I am sure it is going to be of benefit to the ministry--the Ministry of the Environment as well--as it tries to determine the damage that seems to have been done by the agreement, perhaps inadvertently in many cases. Thank you very much. Hopefully, if necessary, we can call on you again for some help and expertise as we wind our way through that part of the agreement.

To members of the committee, it has been another very rigorous week, and I appreciate the work and energy you have put into it. We will now not be sitting for two weeks. We will meet again in Washington. In fact, I am afraid you will find you will be working very hard when you are in Washington too.

The committee adjourned at 5:06 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, APRIL 14, 1987

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Bossy, Maurice L. (Chatham-Kent L) for Mr. Ferraro

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From Polysar Petrochemicals Ltd.:

Bentley, G. Firman, President

Finn, Gerry J., Director, Government Relations

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, April 14, 1988

The committee met at 10:38 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: We are happy to have with us this morning the president of Polysar Petrochemicals Ltd., Mr. Bentley, and the director of government relations, Mr. Finn. I appreciate your coming. I recall your presentation to the select committee some time ago about this issue and I would appreciate your reaction to the actual agreement, now that you have seen it. Perhaps you could indicate your views. We do have a brief, which is in front of us, exhibit 1 from February 15. Perhaps you could lead us through that.

Mr. Bentley: I have some other notes.

Mr. Chairman: OK, follow those then.

Mr. Bentley: Right. We gave you that, I believe, in February. I hope you have had an opportunity to look at it, although I recognize the shower of paper that you have to deal with.

Mr. Chairman: It is sometimes overwhelming.

POLYSAR PETROCHEMICALS LTD.

Mr. Bentley: Gerry Finn is our director of government relations. In addition to representing Polysar, I was chairman of the chemical and petrochemical sectoral advisory group on international trade, and Mr. Finn was my assistant, so I will be happy to deal with the broader subject, if you would like us to.

As I mentioned, we submitted the brief to you a couple of months ago. I would like to outline some of the reasons for our support for the bilateral trade arrangement between Canada and the United States. I am going to make a few remarks and we have brought some slides with us. Then Mr. Finn and I will be happy to answer your questions.

Polysar Petrochemicals is unique in that it is a truly international company that is Canadian based. We have about 6,000 people throughout the world and we have 3,000 people in the Sarnia area alone. Our sales this year will probably exceed \$2.5 billion and they will be distributed approximately by one third in Canada, one third in the United States and one third in the rest of the world, the largest single portion being in Europe where we also have two large plants.

Our sales are 31 per cent in Canada, but we have 75 per cent of our assets in Canada, mostly in the Sarnia area, although we have a plant in Cambridge and one in the east end of Montreal. Our sales are 35 per cent in the United States with 12 per cent of our assets, 25 per cent in Europe with 13 per cent of our assets and others, nine per cent.

With 75 per cent of the assets in Canada and only 31 per cent of the sales, it is essential for us to depend on international trade and, in fact, our products are sold in 90 countries. A large part of our trade is with the United States. However, our strategic direction is to concentrate currently on the Asia-Pacific area as we have a substantial position in the European market.

To this end, we opened a new Asia-Pacific office in Singapore, although we have had an office in Tokyo from the early 1950s. We have one in Hong Kong and one in Australia. The Ontario government was very gracious in letting us share its office facilities while we were opening that office in Singapore.

We have a joint venture company in Shanghai in China, the first Canadian producing plant in that country. It was profitable very quickly and we have two additional joint ventures in China under negotiation. In addition, we have reached the feasibility stage of a synthetic rubber plant in Taiwan and are investigating the possibility of our plants in South Korea and Thailand. Although our intention is to grow in the Asia-Pacific region, we intend to maintain and increase our existing business in Europe and the United States.

I give you this background to make it clear to you that we support the principles of the General Agreement on Tariffs and Trade and will continue to work very hard towards the reduction and removal of trade impediments through GATT. We believe the next GATT round will not give results for some time and we are faced with a current and more protectionist legislation in the United States. As a consequence, we have supported the bilateral agreement. In its place, we believe our market access will be more secure and we see opportunities for the southwestern region of Ontario in particular.

I would like to talk now specifically about the Sarnia area where I am sure you are well aware that there is a heavy concentration of chemical and petrochemical plants. We feel they are well positioned to take advantage of liberalization of trade with the United States. I would like Mr. Finn to put up a map.

The remarks I am going to make and the point I have been trying to make for some time is that I think, by and large, this discussion on free trade has ignored the fact that southwestern Ontario--and you can take it from Toronto to London and that area, including the Golden Horseshoe--is more ideally located than any other part of the North American continent as a manufacturing centre. We are closer to that market than California, we are closer than Texas and we are closer than Florida and most of the Sunbelt.

I would like to get you to think about the change in industry that has taken place, particularly in North America, which is following this practice in Japan.

In addition to the quality emphasis, there is the just-in-time inventory practice, where plants want the parts they are going to run to be put on their dock the morning they are going to use them. In other words, they eliminate the cost of their inventories. The inventories are held by their suppliers.

Any plant located in that area is one day's trucking distance. This is a 500-mile radius. There is one day's trucking distance from anywhere in that area. Located in that area are 10 of the 13 top industrial markets in North America. There is 47 per cent of the total US population, 48 per cent of all the retail sales, 54 per cent of the US payroll and 54 per cent of the manufacturing activity. If you stop to analyse the magnitude of those numbers, the location of southwestern Ontario becomes a very major consideration.

In our brief, we have included that, "It is difficult to evaluate the effect of a free trade agreement until it has been in place for a few years." However, this does not stop either the supporters or proponents from predicting a quick fix for all the country's economic problems or the loss of 500,000 jobs and our culture.

There is some evidence that significant gains can be realized through secure access to a large market without the loss of sovereignty or culture. Based on our experience, we know this to be true. We recognize that some adjustments to the new regime will be required, and there could be some job losses and job shifts. However, it is important to remember that these are a normal part of business and should not be blamed solely on the free trade arrangement.

I would like to put up our next slide and have Mr. Finn talk about it. These are some statistics that show the job change taking place between 1974 and 1982 when there was no free trade arrangement in place.

Mr. Finn: This is a rather cluttered slide, but rather than miss any particular industry, we have tried to put all manufacturing sectors on it. This table comes from the federal Department of Regional Industrial Expansion, and it is really just quoting Statistics Canada information.

Before I make a couple of points about it, I want to make sure we understand what is in the table. As Mr. Bentley said, we are dealing with numbers between 1974 and 1982. The second and third columns called "Births" and "Deaths" are dealing with new jobs or job changes as a result of the starting up or shutting down of any of the businesses in any of the industries down the left. The fourth and fifth columns are dealing with expanding and contracting businesses in existing businesses. That is the distinction.

Mr. Pelissero: Which is the net figure?

Mr. Finn: The net figure is the first column, "Total Change."

The first point I would like to make is, if you look at the total net change, the 112,000--which is this number here, 112,101--that is the total net change in jobs in all those manufacturing sectors together if you accumulate it between 1974 and 1982, which does not sound all that much--112,000 jobs.

1050

The significant point is, if you read across that same line, you see that under the birth column there are 475,000 and the next one, 442,000, etc. If you add those up, you have 1.4 million jobs that have actually changed, jobs that had been created and lost over that period of time, leading to a net increase of 112,000. The reason we would highlight that is that it shows a measure of the volatility of the employment market in the economy.

Then if you pick any given industry, the top industry, for example, transportation equipment, which had the highest net increase of 37,977 jobs, that was made up of 150,000 or so people entering and leaving that industry but, on a net basis, 37,000 or 38,000 new jobs. The table shows that there is a great deal of volatility in the economy, from an employment basis, all the time.

The other interesting thing I would like to point out is, if we just add this overlay, the red numbers now represent the tariff situation in those

industries. There is no significance in the fact that I have left some of the industries out. The ones I have omitted generally tend to be either free or very low tariffs, low meaning less than six per cent.

Mr. Haggerty: The tariffs are applied by which country, though?

Mr. Finn: Those are Canadian tariffs and, once again, when you put up one number representing tariffs in an industry, you recognize that you are generalizing but, on average, and these are a weighted average, those are the situations.

It is interesting to note that the industries at the bottom, textiles, furniture, knitting mills, shoes and clothing, etc., have all experienced net job losses over that period, from 1974 to 1982, yet they have all had double-digit tariff protection. I think it is rather significant that, even with that kind of tariff protection, in a rather benign situation as far as the free trade agreement goes, these industries have all lost a fairly substantial number of jobs.

Mr. Bentley: I think the point we are trying to make is that high tariffs did not necessarily guarantee their intention of jobs, the other point being that at any point in time in the economy there are major job shifts going on all the time by the births, deaths, expansion and contraction, and this period is a period when there was not really even any serious talk of a free trade arrangement.

Mr. Pelissero: In regard to the 10 per cent figure down to free: Does that mean that, depending on the commodity, it ranges anywhere from 10 per cent down to nothing or does that mean from 1974 to 1982 it went from 10 per cent down to free?

Mr. Finn: I am sorry. The 10 per cent to free is a range of the tariffs that exist in that industry, and the arrow points to the predominant side. It tends more to be free than to be 10, but it ranges between 10 and free. Those are current tariffs in place today.

Mr. Pelissero: They were not necessarily in place in 1974 then?

Mr. Finn: They were all in place in 1974 and in fact, in most cases, the tariffs have not changed or they have gone down. As you know, under the various GATT rounds there have been incremental changes downwards.

Mr. Chairman: We do not have a copy of that with our brief. Would it be possible to get a copy later?

Mr. Finn: Yes.

Mr. J. B. Nixon: Is it an alternative conclusion that quite simply tariff policy cannot be used to ensure an industry's growth? There may not be a causal relation.

Mr. Finn: That is right, absolutely. I think our point on that would be that tariffs do not seem to be an answer to job creation. The underlying point would have to be, and the point I think we make in our brief is, that in order to be able to survive in today's economy you have to be internationally competitive.

Mr. J. B. Nixon: I agree, but are you implying the converse, that the absence of tariffs encourages competitiveness in job creation?

Mr. Finn: No. In fact, we started off just with the first. Really, all we were interested in showing initially was the great deal of job change in the economy all the time. It was only after I looked at some tariffs that I thought it might be a useful addition. It is just coincidental.

Mr. J. B. Nixon: Very interesting.

Mr. Chairman: We are getting a number of hands. Do you mind if we interrupt?

Mr. Bentley: No. With that and with the brief, we have finished our presentation. I did not want to take you through what you have already read. This is the second or third time.

Mr. Morin-Strom: Where is the steel industry in this? Would that be primary metal?

Mr. Finn: Some of it would be primary metal and some of it would be in fabricating, I guess, depending on the phase.

Mr. Morin-Strom: The big integrated mills?

Mr. Finn: Yes. The industries that are listed are the standard industrial classifications used by Statistics Canada. I am assuming the large steel companies that we know would be in the primary metals.

Mr. Morin-Strom: That is what I would assume too, but the steel industry in fact is not free trade. There are tariffs on almost all steel products coming into Canada, typically fairly small, on the order of five per cent but in some cases more than 10 per cent.

Mr. Chairman: Would that be under primary metal, Mr. Morin-Strom?

Mr. Morin-Strom: I would interpret it on that chart as being under primary metal. They are quite distinct from the other minerals.

Mr. Bentley: Quite frankly, we did not go back and look. What we were looking at when we did this was job shifts. Then I think I asked Gerry the question, "What about tariffs?" We have not taken the time to go into the classifications. Primary metals could be. I would tend to agree with you. I think steel probably is in there, but it could be just raw materials.

Mr. Morin-Strom: The other point that perhaps one might get as an interpretation out of this relates to the fact that this agreement is not fundamentally about tariffs and that tariffs are not the issue in the trading relationship between Canada and the United States for most industries.

I agree that most industries have no tariffs or relatively low tariffs and we have seen that evidence throughout. However, those industries that do have significant tariffs, in particular the five that are listed at the bottom, are the ones that are the most vulnerable and the ones where we have been feeling difficulties in terms of competitiveness.

It raises a serious question as to when we eliminate those tariffs, what are we going to do, how on earth are those industries possibly going to adjust when they are having this much trouble as it is with tariffs up in the order of 20 per cent?

Mr. Bentley: The comment I would like to make there is that the real threat to those industries--textiles, furniture and knitting mills--is not from the United States. The real threat is from the emerging countries of the Asia-Pacific area. The United States is as vulnerable or even more vulnerable than we are to the Third World. The removal of tariffs between our two countries we do not believe is a major threat to our industry. What we should be more concerned about is the GATT round; that is where that concern should be more registered.

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Mr. Morin-Strom: So if this agreement is not fundamentally about tariffs, what is it about?

Mr. Bentley: I do not know why you say it is not fundamentally about tariffs. Eighty per cent of the trade we do between our two countries is free now, and over the next 10 years we are removing the final tariffs to zero. The removal of tariffs is an integral part of this agreement.

Mr. Morin-Strom: I guess we could debate what the impact may be on these industries, but the opposition to the agreement is much more fundamental in nature, in terms of the right of Canadian governments to intervene in the economy in a whole host of areas and the restrictiveness of the provisions, particularly in areas such as energy and resources.

Mr. Bentley: I appreciate that the right of intervention is a different and philosophical view, but removal of tariffs is an integral part of the agreement.

Mr. Morin-Strom: That is all for now. Thank you.

Mr. Haggerty: I was looking at page 3, your benefits of free trade. In the bottom paragraph, you suggest that there was an American firm that wanted to locate a plant facility in around your Polysar petrochemicals plant in the Sarnia area: "The vice-president making the selection said Moore township had advantages over other locations, namely, cheap power, a low dollar...." I am going to stop there.

We had other witnesses appear before the committee who indicated that in the fluctuation of the Canadian dollar, when it goes up to 80 to 82 cents, free trade is out the door. In other words, they cannot compete on the American market. You talk about a low dollar. I guess it is up to about 81 or 82 cents right now or somewhere in that area.

We had, for example, the paper industry indicate that every time there is a percentage point change or one cent on the dollar, they are losing \$1 million. What effect does this have on your industry, every time that dollar changes a little, goes up or down? You are exporting now.

Mr. Bentley: Yes. You have raised that point that was in our brief. I would like to tell the committee about that plant. It is a polypropylene plant. Mr. Ladney is the president of that American company that bought the

land in Ontario to expand, back in the 1960s. In a sense, they still held that land. There was a debate as to whether he would locate it in Michigan, in Ontario or in Toledo, Ohio. In fact, he did decide on Marysville. Fortunately, we will be providing the raw material for that plant.

Mr. Haggerty: That was my next question on this matter.

Mr. Bentley: OK. We are providing the raw material for that plant through pipelines under the St. Clair River, so fortunately it is to an advantage of a Canadian company. But if he had been left to his own devices, if there had been no tariff, and these are his words, so I am not putting them in his mouth, he would have preferred to put that plant in Ontario as opposed to Michigan. He believes the dollar, he believes our workforce is better and he believes our work ethic is stronger in Ontario. He is an American. I signed the contract with him to sell this feedstock, so I am quoting him as it being better on this side of the border.

There would have been 500 jobs in Ontario as opposed to Michigan, had those things-- The key thing in his mind was the tariff. With respect to the dollar, we are fortunate in that the higher United States dollar does impact our profits. With our company, because of our manufacturing and our sales in France, in Germany and so on, our mix of currencies, it does not have the major effect it would have on somebody just selling to the United States. Certainly, we get a lower return. I cannot quote the number to you, but we do get a lower return on our US sales each time the dollar goes up.

Mr. Haggerty: So with regard to your competition, say, 10 years down the road, if the dollar goes up close to the American dollar, then you cannot compete in that market.

Mr. Bentley: No. At a par dollar, we would still compete.

Mr. Haggerty: You would?

Mr. Bentley: Yes, absolutely.

Mr. Haggerty: You are the first industry which has indicated that.

Mr. Bentley: We will make less money, but we would certainly compete.

Mr. Haggerty: On page 4, you say: "As it turns out, Polysar will now be exporting the raw material to Michigan where there will be more than 100 jobs created." That is a common practice here in Canada and particularly Ontario. We are known to export almost all of our raw material. It may be refined to a certain state, but it is exported to the United States where it is finished as a finished product. That is nothing new.

This is one of the things I am concerned about as we look at this free trade. We have seen a number of industries in the northern part of the United States and the eastern section of the United States, say, from Illinois, pull up stakes in and around the Buffalo area and the Niagara Falls area and head for the southern part of the United States. They have even gone beyond that to locate parts industries or manufacturing in low-wage areas in the southern part of the United States and in Mexico.

You go on to say, "Finally, we feel the provisions on investment will provide Canadians wanting to invest in the US." If that is where everybody is

heading for, cheaper labour and that, what benefit is there for Canadians then here if we ship all of our raw material to be refined at a further manufacturing stage in some other part of the United States or Mexico? Really, we are giving away everything, are we not?

Mr. Bentley: No, I do not think we are giving away everything at all.

Mr. Villeneuve: That is not a leading question, is it?

Mr. Bentley: First of all--it is based on Canadian crude but we also bring crude from elsewhere in the world to refine--we are the major supplier of basic petrochemicals in the northern tier of the North American continent in the Great Lakes region. This is an upgraded resource. It is upgraded here. The point we are making is if we did not have a tariff, that plant would have been in Ontario and not in Michigan, and I disagree with your point.

Certainly, there are some highly labour-intensive industries that are going to that area in northern Mexico, some of them. There have not been that many in Canada. But by the same token, Goodyear Tire and Rubber has announced a plant in Ontario. They have many plants in the sunbelt of the United States.

Mr. Haggerty: Provided there is the federal-provincial subsidy to get them going here.

Mr. Bentley: Many of the states have equal subsidies to the plants located in the sunbelt.

Mr. Haggerty: Just looking at that point, though, that I raised there, following what you had said that--

Mr. Chairman: Is this a supplementary question?

Mr. Haggerty: A supplementary question. The reason it did not locate here is the tariff that is applied now, but knowing full well that within a period of from zero to five or 10 years that tariff could be removed from there, it would take them probably about two years to bring their plant on stream.

Mr. Bentley: When we committed that plant, the free trade deal had not been really looked at seriously.

Mr. Haggerty: In other words, this is irrelevant. Is that not what you are telling us?

Mr. Bentley: No.

Mr. Chairman: What plant are we talking about now? I have lost track here.

Mr. Haggerty: This is the plant that was supposed to locate here, an American auto parts supplier, Detroit Plastic Moulding.

Mr. Chairman: All right.

Mr. Haggerty: So this was before free trade then?

Mr. Finn: I guess the rationale, though, that the president of the organization used in explaining why he picked Michigan as opposed to Ontario or Ohio was the dollar, the tariff and environmental regulations. With respect to the tariff, where the product he is making, as Mr. Bentley has said, is something called polypropylene, which is a plastic, and it uses a product called propylene as its raw material, the raw material currently, with or without the free trade agreement, travels back and forth between Canada and the United States with no duty on it.

Polypropylene travels back and forth with about 12 per cent duty on it. What he is doing is primarily taking propylene, as his major raw material cost, and converting it into polypropylene. So he asked why he should not take it under the river without any duty and manufacture it in Michigan, when it is almost all going to be used in the automobile industry in Detroit anyway. That is the rationale.

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Mr. Haggerty: Then circumvent the provincial environmental regulations and, eventually, get it all picked up in the Great Lakes system anyway, I guess, eh?

Mr. Finn: We do not know what he was trying to say.

Mr. Haggerty: You are not going to have anybody locate in Ontario. We have taken environmental issues--

Mr. Bentley: That was a very minor issue, and just to correct you also, the plant has not started up yet and it is starting up in the latter part of this year. Had he known there was a possibility of a free trade arrangement when he committed the plant, he would have put it in Ontario.

Mr. Chairman: Mr. Pelissero, Mr. Neumann and Mr. Nixon.

Mr. Pelissero: Thank you, Mr. Bentley and Mr. Finn, for your presentation. Just to carry on for 30 seconds before I move on to another point where Mr. Haggerty left off, at the bottom of page 3 in the brief that you submitted to us in February, the vice-president said that the 10 per cent export tariff cost the company about US\$4 million a year and, concerning the growing spate of environmental regulations in Ontario, in announcing the decision, he said, and I am assuming this is a quote: "Had it not been for these two factors, there is no question we would have a plant operating in Moore township."

To me, unless you have additional information, it was a weighing of both of those factors equally in terms of environmental regulations as well as the tariff. Certainly, in the discussions we had in Washington two or three weeks ago about why some companies were locating here, it was to get behind the tariff wall that we had at one time, with the tariffs coming down through the General Agreement on Tariffs and Trade. I guess I share some of your concerns about the GATT, maybe not having a full element of trust in that.

The mood I read in Washington--

Mr. Chairman: Why is that?

Mr. Pelissero: I will tell you why. It is because I represent probably about 35 per cent of the grape producers and a third of the wineries

in Lincoln, so I am stinging a little bit from free trade and the GATT, if you will pardon me, because they are feeling hurt right now.

The mood we received in Washington was that the United States was going to give the GATT kind of one more time. If they were not able to achieve what they felt were some major concessions in other countries via the GATT, then they would become more protectionist with some of their policies.

We are moving on. You identify on page 4 that--

Mr. Bentley: Could I just comment before I let this slip, Mr. Chairman, if I may?

Mr. Chairman: Sure.

Mr. Bentley: I do not want to be argumentative and so on, but I think it would be wise. The environmental considerations were secondary. They were not equal. We have worked with them. One of the things we are trying to do as a company is to get industries downstream from our petrochemicals to locate near our plant in Sarnia. We have worked with them to try to get that.

I believe we would have been able to handle the environmental consideration.

Mr. Pelissero: I am only responding again, without being argumentative.

Mr. Bentley: Yes, I know.

Mr. Pelissero: I am only responding to a direct quote. If that quote is not correct--

Mr. Bentley: That is absolutely there.

Mr. Pelissero: It is part of your brief. You have every opportunity to correct that.

Mr. Bentley: Yes.

Mr. Pelissero: On page 4, you mention the fact that, with the removal of tariffs, there could be a possibility of reopening a plant that has been shut down since 1981. Could you maybe update us on that, or are we waiting to see what happens to the free trade agreement?

Mr. Bentley: We are not waiting to see what happens in the free trade agreement. We are 95 per cent--in fact, we expect to make the decision to restart that plant in the first week in May. We are working on the plant now.

It represents just 40 jobs. However, it is 3,000 construction jobs in the Sarnia area. We expect to start up that plant next year. The three cents that are referred to, or 2.5--whatever it is--improve the profitability of the operation, but it was not the only factor. In fact, the world market was the real key factor, but it makes the project look that much better.

Mr. Pelissero: In terms of the executive summary, approximately 31 per cent of revenue is from Canada and 35 per cent from the US. Where does the other third come from? Basically, the rest of the world is broken down--

Mr. Bentley: The rest of the world; Europe principally. Europe is our next largest area, then Asia-Pacific followed by South America last.

Mr. Neumann: As I understand it, there is a tariff on your exports to the US.

Mr. Bentley: Just on the styrenics. Most of our products are free.

Mr. Neumann: Are tariff-free.

Mr. Bentley: Yes.

Mr. Neumann: As I understand it, the existing tariff you do have has been in a state of being reduced through the General Agreement on Tariffs and Trade?

Mr. Bentley: Coming down, yes.

Mr. Neumann: I am perplexed then. Why is it your company feels we need this free trade agreement with the US if you already have access to the American market?

Mr. Bentley: The reason we feel so strongly about it is that if our company did not trade internationally, it would not exist. We could not--

Mr. Neumann: But tariffs are already being reduced internationally through GATT.

Mr. Bentley: We are desperately afraid of the protectionist mood in the United States. We have talked to our counterparts there. They are very strong on it. We believe that if we do not go forward with this free trade arrangement, they are going to revert to protectionism in the United States and we will not continue to enjoy the market access we have had in the past. This agreement ensures that access, forward.

Mr. Neumann: So this agreement does not increase your access. It is fear of future protectionism and loss of what you already have that encourages you to support this agreement.

Mr. Bentley: The effect of this agreement, and we have quantified it, is in the range of \$15 million to \$20 million per year for our company positively, because of the removal of the tariffs on the one product line that still has tariffs. But if we lost the free access to the US market, we would be very negatively impacted.

Mr. Neumann: You are aware that the United States has no intention of exempting Canada from the omnibus trade bill.

Mr. Bentley: Yes.

Mr. Neumann: You are aware that this agreement does not preclude the United States from passing future protectionist measures, does not preclude it from using countervail or antidumping, so what have we gained? It was fear of US protectionism. You already had the access, so what have you gained? We have given up a lot in many other areas, other than tariffs.

Mr. Finn: If I can be permitted to respond to that, I think with respect to countervail and dumping and that, it is a reciprocal right. Canada

has exactly identical rights as the United States does and there has been no change in that regard.

Mr. Neumann: If there has been no change, how have you gained protection?

Mr. Finn: Our concern was primarily the mood in the US. It is difficult to pinpoint any specific thing, but the mood in the US clearly was towards protectionism, coming out of its massive trade deficit. At any given time--I guess your committee on a previous occasion has gone to Washington as well, and has experienced the mood reflected in the omnibus trade bill and what has always seemed to be about 300 or so different pieces of protectionist legislation in the US.

In the omnibus trade bill, in the early versions, in the early version passed by the House and by the Senate, there were provisions that would allow the US government to review all types of foreign investment and foreign acquisition. There was a provision that would allow them to impose trade sanctions against any country that has a continual trade surplus with the US, which they deem to be trading unfairly with them. They could clearly, in our view, have put Canada in that category.

Our concern was primarily to try to do something of an immediate nature, more immediate than GATT, to try to stem that increase in protectionist legislation in the US.

Mr. Neumann: OK. I will not pursue it. I disagree with your analysis. I do not think you have achieved what you intended to achieve there.

Has Polysar been at all dependent on government support through incentive subsidies or research and development funding?

Mr. Bentley: Polysar has not received one cent from government since the original \$35 million that was put in in 1942, and it has returned a great deal of money to the government of Canada and to other governments.

Mr. Pelissero: A great company; we need more like it.

Mr. Bentley: Thank you.

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Mr. Neumann: What are the implications for Polysar of the potential Nova takeover?

Mr. Bentley: I do not think I would like to comment publicly on that. I do not think it is proper for me to comment publicly.

Mr. J. B. Nixon: I would just like to pursue a comment you made that you believe Polysar would remain profitable or still be profitable if the currency exchange rate was to change to a point of parity. I guess I am dealing with a bit of a hypothetical one, but for instance, if a division of yours is located in Ontario and exports all of its product to the US and the currency rates go to parity--tell me where my logic is flawed--I would assume that means a 20 per cent reduction in revenue.

Mr. Bentley: There would be a 20 per cent reduction in return from the sales of that product.

Mr. J. B. Nixon: So it is quite fair to say that division, if such a division exists, which exports all of its product to the US, may not be profitable on its own.

Mr. Bentley: It would be 20 per cent less profitable; that is for sure.

Mr. J. B. Nixon: A 20 per cent reduction in revenue is pretty significant.

Mr. Bentley: In our industry, a 20 per cent reduction is of very great concern. However, our plants are world-scale plants and we have to compete on a world-scale basis, so our costs--one of the things many of you may be familiar with is the Petrosar plant that was in such difficulty for a long time. One thing we have done since 1985 is to revamp and reconstruct that plant so it is competitive with a gulf coast plant. Our costs are equal to or slightly better than their cost structure at this point in time; I am sure they will not let us remain that way. We have to have a world-scale cost structure, so we would still be profitable.

Mr. J. B. Nixon: I understand. Still, the idea of that parity is a bit unnerving.

Mr. Bentley: The idea of parity? No question; it is a real concern in a marginal industry. It is a problem.

Mr. Bossy: I always keep coming back to the fact that the imbalance in trade between the two countries has been the real cause for this tremendous discussion that has taken place as far as trade between the two countries is concerned. It has been highlighted also because of the situation that exists between Japan and the United States.

Canada being in a trade surplus situation, as it has been, and one that is growing, basically your industry may not have a fear of too much impact because of the business you happen to be in. In your conclusions, you say it is difficult to evaluate what impact it would have. But the ordinary person out there has to start thinking now about why the United States would really stop being protectionist, knowing that our trade surplus with it keeps rising. They want a level playing field to trade on and I would have to surmise that a level playing field would include being close to a reasonable balance of trade.

As it exists with the populations we have in both countries, we are not able to absorb too many more imports within the country, because the population is really not growing enough to be able to absorb them. The facts remain here that to equalize our trade, there is only one country that stands to lose in those years when it is going to happen, because it is either we buy more from the United States or we sell less. If we sell less, that means we do not have to produce as much. It is surplus.

The trade we have done with reasonably free access to the market so far has worked reasonably well in some sectors. We are still going to be affected by sectoral problems, regardless of this free trade. I am saying this more as the feeling I get from people who discuss this free trade. They are afraid of the fact that when this agreement comes down, we are going to be the Boy Scouts of America and cave in to the fact that we are going to let the United

States balance this trade more closely, and in turn, some of our plants will be closed down and plants that exist may be converted to warehousing in the meantime.

It is a real concern for the working man. How secure is our labour force when we have that existing? Things were going fairly well and heading in the right direction towards less tariffs with the GATT approach; time alone will tell what is going to come out of this last round. I am very concerned, as are many out there, but I will add that it is very difficult to evaluate what this really means. I cannot read the benefits as much as I can read the detriments in this agreement that happens to have been signed. I am not against traders--we need trade--but by golly, there is major concern on that.

Mr. Bentley: Mr. Bossy, we are trying to be realistic about this agreement. We are not saying it is a panacea. We are not saying it is a perfect agreement. We are saying it is better than what we have today. I agree with you that for many people it is difficult. It is difficult enough for those of us who are working with it all the time to really say, "Look, unequivocally, you should not be concerned and so on."

I do not personally believe that people should be concerned. I think that if you reduce it to its simplest form, we have a market of 25 million people and the United States has a market of 250 million people. We are good at what we do. We do have, still today, the dollar advantage. We do have a highly educated workforce. Regardless of what people say, our productivity is higher today. I think we will gain as a result of having access to that 250 million people, the richest market in the world.

I believe the United States recognizes that it is probably going to continue to have a trade imbalance with Canada, but I believe the administration, particularly the people responsible, is concerned in its own country about the rising protectionism. If protectionism takes off in the United States, it is going to flow throughout the world, and if we have a world where trade barriers are going up as opposed to coming down, then not only are Canada and the United States going to be in difficulty; we are going to be in difficulty economically throughout the world.

I believe the United States wants to take this agreement into the GATT round, which we are starting to work on, by the way--we are advising the federal government on the GATT round--as an example of what can be achieved in hopes of bringing tariff walls down throughout the world.

Mr. Bossy: Just a short comment.

Mr. Chairman: Yes, Mr. Bossy.

Mr. Bossy: I agree with some of what you are saying, but the fact still remains that if we remove the advantages we have--I am talking about a better balance of trade. I cannot see the United States, because of the protectionist bills--we have to realize why they were put in place against the fact that we were in such a trade surplus.

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Other countries in the world are faced with the same issue as far as the United States is concerned, because the jobs--in the plant that we were just talking about, you put a pipeline just under a river because of the vicinity being so close, but the value-added products are being made somewhere else.

The perception is there of the product that you are shipping across that river. In other words, there is a value added across the river, then, for a benefit as far as the tariff situation is concerned. That is really all we are talking about.

I could talk on the environment because, being in Chatham-Kent, we have had a lot of dealings as far as the--

Mr. Bentley: My point in that is that if we had the trade deal, we would have had that plant in Ontario, not in Michigan. That is not just an upgrade. We upgrade the Canadian resources and it is accrued from all over the world, Algeria and so on.

Mr. Chairman: I think we are getting a very good basic generic debate here. Mr. Neumann maybe wishes to conclude with some of his specific questions, as long as they are not too specific, Mr. Neumann.

Mr. Neumann: You do not want me to get too specific. OK.

Mr. Chairman: No, go ahead. I think you were going to start on a new tack when I cut you off before.

Mr. Neumann: I will pass.

Mr. Mackenzie: I thought he said he had finished his questions.

Mr. Chairman: I am sorry, I misunderstood. Any other questions?

Mr. Finn: If I could just make one comment about the omnibus trade bill, because it was raised earlier, I think by Mr. Neumann--

Mr. Chairman: Yes.

Mr. Finn: --suggesting that Canada has not achieved or obtained an exemption and, therefore, what have we gained in the free trade agreement?

In fact, we have not gained a universal exemption, that is correct. In the free trade agreement and subsequent to that we have been assured by people on both sides of the border that the intent and the spirit of the free trade agreement would be violated if some of the provisions of the omnibus trade agreement applied to Canada.

We, as a company, are quite concerned about that. We feel pretty comfortable so far about the assurances we have been given. Just in the last few days, just before the Easter recess in the US Congress--and you know there are almost 200 congressmen working on a version of the omnibus trade bill--we have seen in one of the areas, in the energy area, a provision in the omnibus trade bill that actually quotes the free trade agreement and what was agreed to in the free trade agreement and says that, for the purposes of the omnibus trade bill, they are quite prepared to live by the agreement in there.

Again, from our point of view, that substantiates the facts that we have heard expressed to us: that is, that although the trade bill and the trade agreement are separate issues, one will not take actions that would violate the spirit or the intent of the other.

Mr. Neumann: I can appreciate the point you are making. For your information, the committee was in Washington in the last week of March. We met

with quite a number of people there and gained an appreciation for the fact that the protectionist mood had eased somewhat and that, indeed, they were to some degree taking into consideration the free trade agreement in modifying the omnibus trade bill.

The point I see is that your company in particular had access to the American market. The tariffs on your products were minimal; they are being reduced through GATT. I guess my quarrel is not with your situation, but I see many other areas in the agreement that I find detrimental to the country. It may specifically help your company to a small degree. I do not think it is going to assure you of exclusion from the protectionist mood in the United States if it emerges again in a stronger form in the future.

We had a presentation by a former federal cabinet minister, Mitchell Sharp, who is a free trader who believes in reducing tariffs around the world. I am pleased to see that your company is not as dependent on US trade as some of the companies we have heard from. You have an even balance between exports to the US and exports to other trading partners of Canada. It was Mitchell Sharp's contention that locking us into a two-nation trading agreement would harm Canada's attempt to work towards greater free trade on a global basis, because we would be perceived as junior partners in the two-nation agreement and in partnership with such a major world power. I am getting into a much larger sphere than perhaps you came to discuss here, but I wanted you to know that I am not opposed to liberalized trade but I do feel there are elements in this deal that severely affect Canada's sovereignty and its future ability to act at the national level in terms of national economic interest.

Mr. Bentley: May I just make one comment?

Mr. Chairman: Let us not make another hour.

Mr. Bentley: Just to assure you, we are now working on the GATT round. Just to give you some preliminary things that we have done, the brokering role of Canada, Canada in the world is seen to be a go-between between that big colossus to the south and the rest of the world, and people should never underestimate the power of being a Canadian.

Mr. Chairman: Thank you very much. We appreciate your brief. We appreciate your indicating your interest in the agreement to the committee. I know that when you were here before, you left a profound impression on the committee. I know Mr. Mackenzie often mentioned you as being perhaps the only industry that was indicating it would--

Mr. Mackenzie: Two or three.

Mr. Chairman: --one of two or three that would positively benefit from an agreement, and I see that you are still indicating that. Having just read that Premier's Council report, I think yours is an industry, whether or not we have free trade, which obviously we are proud of in the province of Ontario and which we are expecting a lot of in the future, so thank you very much.

There are just a couple of matters I would like to deal with with the committee. First of all, Mr. McLellan has indicated that there is a story in this morning's Globe to the effect that Mr. Wilson, today or yesterday, has tabled a tax--I am sorry, this is tax reform legislation; I thought he was

talking about a draft free trade agreement. But we will have that available for you.

Secondly, I have received a letter from Mrs. Oberstar concerning the article in the Toronto Star. Prior to receiving that letter, I was approached by some members of the committee about preparing a letter to her complimenting her on her work, and some members suggested that everyone sign it--not Mr. McCague, but that everyone who was there sign it. I talked to her after I received her letter, because it was somewhat disturbing. I indicated that that was the feeling here, and she indicated that she would like to receive that letter, because she is concerned that somehow her reputation has been tarnished. So if it is the will of the committee, I will go ahead and prepare that letter.

Thirdly, we have in fact technically ended our budget as of March 31, and it is time to prepare a new one. If the committee is in agreement, I will have Mr. Carrozza prepare a new one with certain permutations in it. He has a generic one available now, which would involve sitting through the summer, although we do not have any specific reason to sit through the summer at the moment. It does not have any travel in it at all. Mr. McLellan, on the other hand, has done or is in the process of doing some research on what is happening in the GATT and the European Community this summer. If it is the wish of the committee, we will prepare alternative budgets and we can discuss that. Perhaps we can put that on the agenda for next week.

Mr. McCague: Mr. Ferraro would like to be here for that.

Mr. Chairman: Yes, he would.

Mr. McCague: He wants to be able to shop on Sundays.

Mr. J. B. Nixon: Wrong committee, though.

Mr. Chairman: OK. The Liberal members of the committee may have received, as I did, a document from our whip to the effect that this committee was sitting on Tuesdays. I received that--

Mr. Pelissero: I did not get that.

Mr. Chairman: You did not get that? We have not been given permission to sit on Tuesdays, and apparently it is still in discussion with the House leaders.

One other thing that I think perhaps we could discuss in the future, which I think all members of the Legislature have received this week, is the Premier's Council report. There is a great deal in that report that begs a lot of interesting discussion, and it may be something that either the Legislature or we ourselves may wish to put on our agenda.

Our agenda at the moment is basically to finish our hearings on free trade and write our report on free trade. We have indicated in our pre-budget report that we would like to do some more work on tax reform.

At this time, I would suggest that the committee might want to think about the Premier's Council report. It is a rather unique political document in my thinking, because it actually grapples with some of the philosophic concepts of where one plans one's economy. I think it might be worth a lot of

discussion, or the committee might wish to have some members of the Premier's Council appear before it. I do not know.

If you like, we can discuss that in more detail next week. At the moment, we simply have the institute of chartered accountants. I would suggest that we meet at 10 o'clock next week with the institute, and then at 11 o'clock we can deal with some of these matters.

Mr. Haggerty: What day, though?

Mr. Chairman: That will be Thursday, April 21.

The committee adjourned at 11:43 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES
BUDGET

THURSDAY, APRIL 21, 1988



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Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

McGuigan, James F. (Essex-Kent L) for Mr. Kozyra

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Institute of Chartered Accountants of Ontario:

Beach, Donald, President

Wilson, David, Executive Director

Peck, Robert, General Counsel to the Institute; with Bastedo, Cooper and
Shostack

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, April 21, 1988

The committee met at 10:07 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

The Vice-Chairman: Ladies and gentlemen, the New Democratic Party is having a caucus. They are probably sharpening their knives. I suggest that perhaps we should proceed.

Interjection.

Mr. Villeneuve: Yes, let's go to the people on that question.

The Vice-Chairman: I would like to welcome to the committee the Institute of Chartered Accountants of Ontario, and in particular, the president, Donald Beach, and others. Welcome, gentlemen. Don, what I would like you to do first is to introduce your delegation to the committee, please.

Mr. Beach: My name is Don Beach. I am president of the institute. On my right is David Wilson, executive director of the institute, and on his right is Gary Hannaford, director of institute services. On my left is Robert Peck, general counsel to the institute, and on my far right is Tom Warner, associate registrar of the institute.

In real life, I am national tax partner of Coopers and Lybrand. I am an elected volunteer to the institute. I am the only one here who is an elected volunteer. I would be better briefed on all of this material if I had not spent yesterday afternoon and evening locked up and studying the budget, which I found very interesting.

David Wilson is the principal author of our brief and will be able to speak to the detail of it much more ably than I.

The Vice-Chairman: I suggest that if it is appropriate to you--you tell me--you could present your brief and then open it up to questions, if at all possible.

Mr. Beach: Yes. I will do a brief introduction.

Mr. Vice-Chairman: Very good. The floor is yours, sir.

Mr. Beach: Dave Wilson may make some supplementary comments. Then we would be glad to have questions.

The Vice-Chairman: Fine. I might point out to the committee that the chairman is speaking on a private member's bill and will be in shortly. Please proceed.

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

Mr. Beach: As a profession, we welcome the challenges and opportunities of free trade. The Canadian and Ontario profession of chartered accountants is a strong profession and a leader internationally. As a profession we are used to competition, so we do not shy away from it.

I might just give you a little background on our makeup. In Ontario, we have approximately 21,000 members, about half of whom are in public practice. The other half are employed in industry, government and various other employers outside of public practice.

Of our some 10,000 or so members in public practice, almost half are employed by local firms or are sole practitioners. A further good number are employed or work in what we call regional firms, not the larger international public accounting firms. About half of our members in public practice, or slightly less than half, work in large national or internationally affiliated public accounting firms.

I mentioned competition. We are very competitive within our profession. Unlike the county law associations, which recommend fees to their members, no body or group within our profession suggests any fee tariffs or level of fee charges to members for purposes of rendering services to their clients. So we are used to the competition at different levels of our profession.

Accounting in a general sense is an international science. The methods and techniques used by accountants are universal. As a result of that, there are several international accounting bodies that set standards or endeavour to set standards and increase the state of the art or science of accounting throughout the world. Canadian accountants and Ontario accountants have played an important role in that international activity for a long time. But accountants, of course, operate under the laws and the regulations, the tax systems, etc., of individual political jurisdictions in different countries, so while the methods are general, the application from country to country varies depending on the environment.

We are focusing primarily on the Canada-United States relationship and on the position of Ontario as a competitor in a free trade environment in North America. There is already some movement of accounting professionals across the border. In Ontario, we offer fairly simple or easy admission by US certified public accountants; that is the corresponding professional body in the United States. If a US CPA wants to come to Ontario and practise and become an Ontario chartered accountant, we accept his basic accountancy qualification and require only that he complete a course and an examination in Canadian law, Canadian tax and our Canadian handbook setting out our unique Canadian standards.

So it is relatively easy for American professional accountants, CPAs, to come to Canada. We used to have that right for Canadian CAs going to the United States, reciprocity of qualification. That reciprocity has been in trouble in recent years because the courts of the United States ruled that the US profession could not discriminate country by country as to the admission to qualification as a US CPA. The case in question involved Filipino accountants, and the courts decided that, regardless of the qualification, the preparation, of countries from which professional accountants were coming, the fair access concept would not permit the American body to accept Canadian professional

accountants and apply a different treatment, or not accept accountants from other countries, so that reciprocity has been in trouble recently.

For that reason, and because of US immigration policies and restrictions, there have not been very many Canadian or Ontario chartered accountants relocating to the United States in recent years; not as many. None the less, out of our total membership, we have about 500 members working in the United States at this time. Most of them would have been there for some time and would not be in public practice, but would have relocated with industrial or business employers.

The Vice-Chairman: Excuse me. For that 500 out of your total membership, is that your 21,000 figure?

Mr. Beach: Yes.

The Vice-Chairman: Including the students as well?

Mr. Beach: No, the 21,000 members. Approximately 1,100 are outside Canada, and of that 1,100, approximately 500 are in the United States.

Many of them, I suspect, would have acquired this US CPA qualification. We speak of the qualifications of chartered accountancy in Canada and certified public accountants in the US as being comparable qualifications. Actually, the profession in Canada is much more cohesive and much more co-operative within the country, among the provinces, than it is in the US. In the US, the professional membership consists of membership in a state society of accountants. The co-operation among state societies and the reciprocity between state boards of accountancy is not at the same level as it is in Canada.

I believe, coming from practice, that under a free trade scenario more Canadian chartered accountants would go to the US and not a lot more US CPAs would come to Canada. I think more Canadian chartered accountants would go to the US, particularly younger members, simply because some of them would see greater challenge and greater opportunity in the US.

I do not believe firms would adopt a significant policy of transferring people to the US. As far as employers in public practice are concerned, I do not think there would be a great increase in transfers of personnel. While you do hear reference to the international firms of chartered accountants, actually in most cases the firms in the respective countries are autonomous organizations using the same names and using similar practices, policies and techniques, referring work back and forth between the firms in either country. But the firms in each country are self-governing, autonomous firms, and generally speaking, profits do not go across the border. The profits of public practice firms stay in the country where they are generated and are distributed to the partners there.

I guess we would see some brain drain, if I can put it that way, of young Canadian chartered accountants to the US; not a lot of employment transfer in public practice; perhaps some more employment transfer in industry because of presumed reduced immigration restrictions; and not a lot of transfer of US CPAs to Canada because traditionally, US CPAs have not seen a lot of opportunity in transfer for employment in Canada. They are nationalistic in outlook and do not, to any great extent, seek employment in Canada.

I direct you next to the covering letter with our brief, which highlights the points we make in the brief. The letter points out that we are one of the largest organizations of our kind in the world. Only three US states are larger in terms of membership. It is a profession that is quite comfortable in the international environment and has participated for a long time in international accounting activities.

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There are a number of challenges for our profession arising out of free trade. We have to remain strong so that we can compete internationally. We need to ensure that we maintain our standards so that accounting requirements of the US can be serviced in Canada and American firms do not see a need to send their own people into Canada to meet their needs. We need to ensure that our education system remains strong and competitive and produces an adequate supply of people to meet the needs in Canada so that, again, American interests do not see a need to come into Canada to meet their needs here.

For a number of years, we have emphasized the importance of a single standard of accounting practice so that users of accounting information will know what they are getting and will know they are getting a consistent product. When we talk about a single standard, we talk about uniformity of education, a single standard of education, a single standard of practice, which we enforce in Ontario by a system of practice inspection, a code of ethics and an enforcement of that code of ethics, a single standard of reporting in accordance with generally accepted accounting principles, and generally accepted auditing standards in Canada that are determined and prescribed by the Canadian Institute of Chartered Accountants.

This is a unique system that we have in Canada. In many other countries, government authorities prescribe accounting and auditing standards. In Canada, they are prescribed by the profession itself. Those standards are adopted in corporate law and accepted for tax purposes and many other purposes. The provincial professional bodies enforce the adherence to those standards among their members.

Those are my introductory comments. I will ask David Wilson to elaborate, as he would like, on the brief, of which he has been the principal author.

Mr. Wilson: I would like to speak to some content in the brief and in particular to try to relate the content in the brief to what we believe it means to the Legislature and the province of Ontario.

To try to put it in context, we have an enormously strong structure, we believe, in the Canadian chartered accountancy profession. Turning to Ontario, it is a structure that is 110 years old next year, a structure that is in the tradition of the development of all the leading professions in Canada. Through legislative authority in the provinces, self-regulating professional bodies have developed, taken on responsibilities, met those responsibilities and done so in a very cohesive fashion.

There is reciprocity from province to province in Canada and a uniformity of standards developed through our examination process and through a very vigorous effort to have uniform rules of professional conduct, uniformly administered. This process is led by the Ontario institute on behalf of all the institutes in the country.

Also, there are high standards of monitoring of practice as well. I think that is a very important one to stop at for a minute because there would seem to be, if we contrast the Canadian scene with the American scene, perhaps a stronger emphasis in Canada on making sure that problem situations do not arise. We certainly have a strong professional conduct discipline context, but there is a more uniform and vigorous approach, we would feel, towards standards monitoring in a way to prevent problems.

The point is probably more clearly seen if I turn to the way we would describe it in the United States; that is, there we would see a more litigious mentality, leaving things to be cleaned up by the courts. We would rather keep things out of the courts, because there would be no need to use them, rather than to look to the courts for remedy in problem situations all the time. We think perhaps that is a fair contrast to make between the mentality of the two countries. I think that is probably a reflection of the mentality of the countries generally, rather than just the profession certainly.

Our approaches to standards monitoring, in particular, have received significant international attention. The Irish institute, for example, has just adopted a practice inspection system based directly on ours. The Scots are looking at it, and there are more than a dozen other countries in the world that have had a look at the Ontario system. We have a strong system, which is cohesive and which we believe is built on a proper Canadian and provincial tradition of strong, self-regulating professional bodies.

That is quite different from the tradition in the United States, where the professional bodies are just a little younger, maybe approaching 100 years old now, but 10 years or so behind us in starting. They started in a different way and carried on in a different way. They started with a different regulatory framework, whereby state boards of accountancy were developed. The state boards are not distant from practice. By and large, state boards are dominated by certified public accountant members appointed to them, but they are independent of the other type of body, which is the state society, a voluntary body.

In Canada--in Ontario and in all the other provinces--if someone is a chartered accountant, everyone can know what that means. It is a meeting of uniform standards, an entry into a profession in a cohesive way. In the United States, it is not the same thing with CPAs. There are significantly different approaches to becoming a CPA in the United States. Some require experiential backgrounds; some require no experience. Becoming a CPA does not mean you can be licensed, whereas in Canada becoming a CA means you are eligible for licensing in the licensed jurisdictions.

To know what it means to hear that someone is a CPA in the United States is not possible. They can be people eligible for practice; they can be people not eligible for practice. The public can be comfortable in knowing what it means in Canada but not comfortable in the United States. Practitioners in Canada know that their designation is understood and are vigorous to make sure its reputation is well protected. In the United States, CPAs do not have that same opportunity to fully protect their designation.

The state societies, which would ordinarily be thought to be the equivalent of institutes in Canada, are not the equivalent. They have no authority. They cannot give the CPA and they cannot take it away. That is a state board function. They are voluntary bodies, and perhaps 20 per cent to 25 per cent of the people who are given the CPA designation in the United States never join that body. The state societies and the national association of

state societies, the American Institute of Certified Public Accountants, are interested in high standards, admission, practice and discipline, but they do not have the same teeth in an enforcement way.

At the state board level, which is the regulatory level, there is not enormous cohesion either. There is no absolute certainty as to how many CPAs there are in the United States. They are not sure. They do not know. Those who come to the fore, of course, develop great strength and take leads, so they do have strength in the United States CPA profession, but they do not have the same kind of profession that we have at all.

We think it is very important, from the public interest point of view--and that is what the Legislature is here to protect--to make sure that the public understands what a public accountant is, what it means to become one, what it means to practise as one, what the standards one practises to are and what the disciplinary processes to enforce adherence to those standards are.

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Two definitions of public accountants do not help; three make it even worse. The Canadian system, which is essentially a single-standard system--certainly in Ontario, which is the lead situation--is a very positive thing. There are dimensions of this, which are particularly focused by the free trade agreement, that could be at risk, and it is those dimensions we wish to draw particularly to your attention.

We think that what happens to public accounting in Ontario and in Canada is far more in your hands, far more in the hands of the federal government and far more in the hands of the universities than it is in the hands of our profession. In our profession, we believe we have organized ourselves well. We operate smoothly. We are tremendously open. We have just done another brief recently, to the Ministry of Citizenship in Ontario, in respect to the study on access to the professions and demonstrated--we understand to the ministry's satisfaction--a tremendous openness to qualified people from other countries as well as people from a diversity of backgrounds in Canada.

We have a leading situation internationally, through the Canadian Institute of Chartered Accountants, in standards development. I think our lead there is of fairly strong interest to members of the Legislature. For example, in the early 1970s, we saw the reality of small businesses not needing the same full-blown audit that General Motors, for example, would need.

Our profession, with Ontario spurring it on, arranged its offerings of levels of assurance, its opinions and other types of reports, in such a way that smaller organizations which did not need full-blown audits, for example, and did not need to pay the full-blown audit fees could have the levels of assurance they would need to deal with their bankers, creditors, labour unions and others in an appropriate way. The United States followed us on that.

The Canadian profession led the American profession in the early 1980s in the beginnings of more formal articulation of formal accounting principles with respect to the public sector, with respect to this government and all other levels of government. There are lots of examples, such as the practice inspectionary that I mentioned Ireland has copied us on. The United States is now following, in fact, in that area. So we have a very solid base, we believe. We are a little concerned that we have done a little too much of it on our own, and our particular focus there would be in the area of education.

The Legislature has supported the universities to develop strong faculties in very many of the professions, all the way through to forestry and things like that. That is not the case with respect to professional accounting. We make a distinction in professional accounting from the accounting courses that will be taught in business schools where a fellow who is going to work with accountants as opposed to being one would be involved, and so forth. We have not had the kind of support, the kind of progress that we would like to see there at all.

In Ontario alone, our members and students spend about \$3 million a year on education processes for people who are already university graduates. We in the profession spend about \$8 million a year, a large chunk of that being senior volunteer time equivalent, to develop the research that leads to accounting and auditing standards. There is a tremendous amount of support in the profession for those activities done directly by the profession.

In the universities, we have been addressing the problem from the late 1960s, and there is in the brief a summation of some of the presentations that we have done to some of the ministries, the Bovey commission and other bodies of that kind. We are now at a state that universities have not developed their accounting programs at the rate that accounting principles have developed, and we are very seriously looking at doing independent education activities beyond what the universities can do, simply to make sure that we meet the needs of the profession.

We have a tremendous body of statistics we have developed through the various examinations we set. Those statistics can tell us how students from various universities perform within Ontario. Those statistics tell us very clearly how Ontario university graduates perform relative to university graduates in other provinces. You will not be pleased with the results of the performance of Ontario university graduates vis-à-vis those in other provinces. They are behind.

The statistical data are of sufficient quantity to demonstrate that this is not a temporary phenomenon. It is a phenomenon which is rooted in the fact that the programs that are available through the systems in other provinces are more extensive and have been expanded at the same time as the body of knowledge the society has required the profession to have. In Ontario that has not been the case.

We cannot be more vigorous in saying this to you. We are very frustrated. We are attempting right now to expand the requirements in Ontario to meet those of other provinces. In the course of doing that we would like to stay with the university system. We are prepared to privately fund programs within the university system at a few universities which will help us to deliver on that.

We are having difficulty in arranging that, even though we are prepared to put up private funding because the university funding allocation system is such that any increase in enrolment that our activities might generate will not necessarily flow very quickly through to the universities. Quite apart from the government's funding arrangements, within universities themselves they have their own allocation problems. So those parts that might generate some more activity might not get the resources that that activity generates. It may instead go to a general university pot.

We are quite concerned in this area and we are developing a brief at the moment for the Minister of Colleges and Universities to try to address this.

We are very concerned that we are falling behind.

I link this with free trade directly because in the United States, the members of the American Institute of Certified Public Accountants have just overwhelmingly voted for a five-year university requirement as the basic standard of education for admission as a CPA by the year 2000. That is a very significant change. The question is posed: How will they look at the educational requirements of the Ontario certified accountant vis-à-vis their own requirements? We have a serious concern in that respect.

We also have concern for the integrity of the standards development that we have done, which is not only solid but has been leading. We need to make sure we preserve the institutions that have been developed. They are strong, they are open and they are progressive. We need to make sure we have a well-regulated but strong professional accounting approach in Ontario and in Canada.

We are concerned further in the area of insurance, and the free trade proposals do cause us some senses of chill here. There is a problem we have been suffering through for some time. There have been many very high awards in courts in the United States in this area. That has caused particularly the European-based reinsurance market to look dimly at North America, and we are simply--we have been already--swept in with the US. We have some better rate structures here than is given to practitioners in the US, but rates really are not the main concern. The main concern is simple availability.

The amount of professional liability insurance available to chartered accountants now is far less than it has been in the past, and it is not satisfactory. That is not fair to the public that would be protected by that insurance and it is not fair to practitioners who are trying to serve the public and have business risk exposure.

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We have filed a brief with the Ministry of Financial Institutions and with the Ministry of the Attorney General, expressing our concerns on this. The briefs were received and we were advised that certain studies were in progress, particularly with the Ontario Law Reform Commission. We are very keen to see how those studies progress because we have problems here that need to be met. There are practitioners who are saying, "We do not believe that exposure to risk makes it all that worth while."

If you enter the United States free trade scenario where there is a whole different mentality with respect to litigation and the courts, any of the difficulties we have seen now we are quite sure will be exacerbated. We wonder whether Canadian firms will be that anxious to increase their exposure to practice risks in the US by taking on business there when their insurance protections are as limited as they are.

There are a number of proposals we have raised in this area which have to do with insurance-type activity, joint and several liability determinations, capping, and that sort of thing. There are forms of business organization suggestions we have raised with respect to incorporation in this area and with respect to limited partnerships. We are very keen to see these matters addressed promptly in view of the free trade agreement because we think the exposures could seriously undermine the overall integrity of what is a very well-integrated profession, one that is simply better integrated than the US. We could wind up being junior to that if we did not pay attention to these matters.

Those are the main concerns we have in trying to bring the free trade agreement into focus with us. We can practise internationally with the best of them. We are the best of them, and we have shown that very clearly. But we have done it because we have a strong, well-shored-up, well-developed base within our own country, and particularly within our Ontario jurisdiction.

If the measures which are fundamental to that base continue to erode, particularly in education, particularly with respect to insurance, if there is any endangerment of our standard-setting role, then the free trade agreement will be a very serious problem for us. But all of that is within the hands of the Legislature and the universities. We have to try to be as clear as we can to you that we look to some help to help us remain strong, by providing us with maintenance of and strengthening of the framework in which we have developed so well so far along in our history.

Mr. Beach: Mr. Chairman, we would be glad to have your questions and questions of members of your committee at this point. I will answer the easy ones and somebody else will answer the tough ones.

The Vice-Chairman: Thank you, Mr. Beach and Mr. Wilson. There are a number of questions from the committee members but, as a prerogative of the chair, may I ask you to clarify for the committee--and I appreciate that your brief was very well presented--could you in a capsule comment indicate or reaffirm, because I am not one hundred per cent sure, the position of the Canadian Institute of Chartered Accountants vis-à-vis the free trade agreement? Are you cautiously approving of it or what exactly are you saying?

Mr. Beach: We are not alarmed. We think that it presents challenges and opportunities for us and we are willing to take them on.

The Vice-Chairman: So you are supportive of the concept of free trade or of this free trade agreement in particular?

Mr. Beach: We are supportive of the concept of free trade. There are many aspects of the free trade proposals that we have not studied intensively and are really not particularly well skilled or well prepared to comment on. We do not take a position as an organization on this issue. Our members take their own positions. Some think it is a good idea and some do not.

The Vice-Chairman: Thank you very much, Mr. Beach. Quite frankly, I understand the logic in the position, having been on this committee for three years. We have a number of questioners.

Mr. Peck: If I might, I will just elaborate on that. I heard Mr. Beach say that the profession does not take a stand, but that the individual members will.

One of the difficulties that the profession has is that until we see the legislation we are not going to know what effect it has on the profession and public accounting. If the federal government decides that it is going to move under its trade and commerce powers, and that any regime in place by the province would be overridden, and if the courts hold that is true, then it may be there would be an effect. We simply do not know. If, as it appears from many of the documents, what is envisaged is an expanded geographic regime, a reciprocity on licensing kind of thing, based on standards, then we have looked at that and we do not think we have a big problem.

If I can just elaborate for a couple of minutes, if you are an

accountant in Manitoba, you can automatically become an accountant in Ontario. If you are a lawyer in Manitoba, you cannot. If you are a lawyer in New York state, it is very hard to become a lawyer in Ontario. If you are a certified public accountant in New York state, it is not that difficult to become a chartered accountant in Ontario. By the way, chartered accountants also have the right to call themselves certified public accountants because the Certified Public Accountants Association merged with the institute.

But what a chartered accountant in New York state or California coming to Ontario would have to do is to really satisfy the institute that he is up to scratch with the local laws, the Canadian business law and tax, and the Canadian handbook. That is the Canadian Institute of Chartered Accountants and the institute handbook. The CICA handbook has the standards. The institute handbook has the ethical rules of professional conduct requirements.

So within the profession itself in terms of what knowledge is required in the ability to compete, as Mr. Beach and Mr. Wilson have said, and as I think the brief makes clear, there is a lot of cohesion in Canada. It is not that way in the United States. There is not reciprocity between all the states. We have called it a patchwork quilt. It is difficult to know.

But one of the problems that the profession has is that, if the lawyers asked me today, as they did a few months ago, "What does it mean?", I would have to say, "We don't know." I think what you have heard is in terms of after the legal structure is settled, and the brief says, you know, that we do not know the authority.

So there are questions that might come up. But what the institute has tried to address are the concerns that it has as a profession remaining strong and a leader, and where those concerns interrelate with government activity.

Mr. Chairman: Thank you for clarifying that. Indeed, the institute may want to take a position, once they see the implementing legislation. Is that fair enough to say?

Mr. Wilson: I would just like to demonstrate that I can also be brief. Really, gentlemen, it is up to you whether we like it or not. If the institutions and the structures that are cultural, that are sovereign, that are professional, are preserved and strengthened, we think we can handle the free trade situation very well and that it has positive prospects. If that is not the case, then it could be a disaster. That is really up to you, and that is what we are trying to say very clearly.

Mr. Chairman: Thank you.

Mr. Pelissero: Thank you, gentlemen, for your presentation this morning. I understood from the beginning, and some of the regulations, that the certified public accountants in the United States in terms of five-year experience, do I understand that means that they want to tighten up the ability for Canadian chartered accountants to move into the United States, or am I misinterpreting that?

Mr. Peck: It is not a five-year experience. What the CPAs have done in the United States is make the threshold qualifying standard to get into the program a university degree. In the United States they have recently said, "The university degree we are going to recognize is a five-year university degree."

As you will see from the brief, one of the differences and difficulties to assess is that in Canada we have a uniform three-year practical experience requirement after university and uniform final exams. It is reduced to two years in some circumstances. In the United States sometimes there is a practical experience requirement. Sometimes there is not. But I do not think it is five years, in any event. It is usually one, two, or three. But the five years is the university degree. That is what Mr. Wilson was talking about.

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Mr. Pelissero: What I am trying to get at is currently, before the free trade agreement was even dreamed up or thought of, what is the status of the ability for the profession to move north-south?

Mr. Peck: OK. I talked about moving north. Moving south it is quite difficult, along the line of green cards and this court case in California.

Mr. Pelissero: Again, if I can understand your concerns, it is that we on this side would loosen the standards by which we allow individuals to become chartered accountants.

Mr. Beach: No.

Mr. Pelissero: No? Not at all? OK.

Mr. Wilson: I think it is important to try to break this up fairly simply. To become either a certified public accountant or a chartered accountant, there are educational standards, there is a particular examination focus and there is experience.

In the US, there is a general uniformity of approach on the education requirement to a four-year degree, which is similar to the Canadian scene. In education, there is a move to go to the equivalent of a five-year degree in the US, and that is established.

The examination process is a separate thing. There is a national examination in the United States. We have a national examination here. If we were to go on to a discussion of that, we think we could demonstrate that ours is the exam to be admired.

Experience is quite separate, and here our experience is a uniform type of approach. In the United States it is all over the map, and that is where the crazy-quilt thing comes in.

One of the reasons we are concerned about this five-year requirement is that in the US there is a far greater focus on the education scenario and less focus on the experience scenario. Here we think we have a balanced focus. We would not turn somebody loose to practise on the public without his having had a training focus.

But in the area of your questioning, that was strictly on the education, not experience, and because the US attaches so much emphasis to the education side of it, we are concerned as to how they would view the designation.

Mr. Pelissero: I am looking at it from our perspective. We may view that as a nontariff barrier, considering that there are no tariffs based on your services moving back and forth, other than that they may set up a requirement that if we have no conversion method, it then becomes restrictive

to services moving south..

What we are saying right now is there are very few restrictions, other than writing a test and meeting a few other requirements, on professions moving from south to north. What I am hearing is that by some of the changes they are contemplating, or indeed have in place, it may be--and I underline the word "may," as your legal advice is that you just do not know--more difficult to move south in that there is not a "free flow" of services between north and south.

Mr. Beach: There are two issues, really. One is the professional qualification; one is the immigration laws. Traditionally, the professional qualifications have been respected. There was reciprocity until the occurrence of this case in the US which said the US could not discriminate between Canadian and Filipino professional accountants. Since that time, our access to professional qualification there has been restricted.

Then on the immigration side, increasingly, for some reason, there has been a restrictive stance by the US authorities on immigration, more restrictive than the position in Canada.

Mr. Pelissero: One final question: Is there an equivalent to a certified general accountant in the United States?

Mr. Beach: Not to my knowledge. You might be able to comment, Dave.

Mr. Wilson: No, there is not a group which would be the equivalent. In the area of other accounting bodies there is decidedly an approach in the individual states towards a single standard. Where there were multiple standards, as there were in Ontario prior to the 1962 merger of the chartered accountants and the Ontario CPAs, that has been disappearing into a single standard. Just as it happened in Ontario in 1962, it has been happening elsewhere. In the US, there are only 14 states that have any kind of a multiple approach--14 jurisdictions out of 54, counting some territories.

There are some states among the 40 that are what we would call single standard states, like Ontario is, that are like Ontario where there was some grandfathering. There are some licensees who are dwindling in number.

The terminology used by the National Association of State Boards of Accountancy for those jurisdictions is, "dying body jurisdictions" and they are phasing out bodies other than certified public accountants.

Mr. Mackenzie: I am a little bit, I guess, disturbed by your presentation for a couple of reasons that I will try to outline.

My dad was a chartered accountant and I always thought he was a pretty bright fellow, even when I disagreed with him, but it never stopped him from taking a position or stating his views on particular subjects.

Until the chairman asked you at the end, I sat here through your brief wondering, "Well, just where are you coming down on the larger political issue that we have to decide?"

I had almost reached the decision that it was a very cautious opposition until you told them that no, basically you support the principle. One certainly does not get a clear idea of what in blazes you are saying in your brief in terms of the political decision that we have to make, which has some pretty

fundamental effects, or could have some pretty fundamental effects on our country.

One of your colleagues talked about a queasiness in Canada. A lot of the reason for that is because we have a much different system here. We have an interventionist type of economy in terms of assisting and developing industry and in terms of individual pricing effects. We have a different social system, quite remarkably different, really, in the emphasis we put on it in this country.

We have a major decision that we have to make that is going to have or could have fundamental effects. Nobody is quite sure just what will happen yet, but there are certainly concerns as to the kind of an effect it will have on our country.

I listened to your brief and it is entirely related to what might or might not hurt the actual operation of your particular institute. I guess that is valid. I am not overly critical of you looking at what might happen to your ability to deal vis à vis us or the US. But you are also a pretty important group, I think, in our society today. Certainly the role you play is a major one in our economy and I am wondering if there is not a little more interest or a little more assessment of whether or not it is just your group you should be looking out for--or whether you have some feelings as to just exactly what this might mean in terms of our people and our country.

We have gone through some real exercises in Washington and without going into the details of them, we had one key United States congressman--when we debated with him at some length in his office about the effects of the energy provisions of this particular bill, his comment was, "Well, surely no government would be stupid enough to sign that kind of an agreement."

One of my colleagues had a very lengthy session in the conviviality of a beer parlour, if you like, with the US senator from Minnesota, just a couple of weeks ago in International Falls. His comment to him was, "You guys sign this deal, in ten years we'll own you."

Whether these are overstatements or not, we certainly lose the right to our own independent pricing policies and energy. We may lose some of the right of regulation in the professions. That is not too clear yet. We certainly could not start a number of social programs that are unique to this country again, with the provisions of this agreement in place. All of this is in the name of the potential benefits of a much larger access to the US market, which in itself, is not clear from the specific agreement.

Mr. Vice-Chairman: Is there a question coming?

Mr. Mackenzie: Well, I think it is because your comment is, "What it will do to us," and it was very difficult to tell, as I say, until the chairman asked you directly whether you were for or against it. In any of your discussions with your group, did you get into what effect this might have on our country as such, because I think that really is fundamental?

Mr. Beach: Well, surveys have been done by the Canadian Institute of Chartered Accountants across Canada and the surveys indicate that the majority of our members think that free trade is a good thing and presents an opportunity for Canada. I think the response really has more to do with the principle of free trade than it does with the details of this particular agreement, because I am not sure that all the people surveyed were aware of

the details; and indeed the details are not yet available, as has been pointed out.

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However, as an institute, we do not take a position for or against free trade. We do not think that is our role as an institute or a professional body. We think it is proper to leave it to our individual members to take a position on this controversial issue, because it is a controversial issue. Some people are for it and some people are against it, as they understand it. Therefore, we see our role today really as to represent the interests of our members in a free trade proposal, as we understand it, rather than to comment as a body on the benefits or disadvantages of the proposals, which are still not clear.

Mr. Mackenzie: Essentially, it is the institute's view of what it means to you as chartered accountants.

Mr. Beach: Yes.

Mr. Wilson: It is that and one more thing. We are trying to help you to understand the impact in this particular area, as others are trying to help you to understand the impact in other areas. We are interested in trying to let you know the impact on our profession with a view to helping you in that context. It is not just a self-interest point of view. It is expressly in the context to let you know that we think we can see ourselves, given our role in the economy, working within free trade so long as certain things are safeguarded and strengthened. In the absence of that, we have concern, and so we have tried to be pretty clear that in helping you do your job we have tried to in fit our piece.

Mr. Villeneuve: Gentlemen from the institute, thank you very much for your presentation. Just before I get into a question, I found it a little strange that my colleague Mr. Mackenzie did not mention the stand that his brothers on the other side of the border in Washington mentioned, about the American auto workers who do not want this pact or this free trade agreement signed at all. They do not have a hidden agenda: they want to dismantle the auto pact. It is that simple. They told us that in no uncertain terms. We also ran into a chicken farmer over there, did we not, Mr. Pelissero, who figured it was not much of a free trade because we were protecting 95 per cent of our market. That is the other side of it.

I was concerned when I heard you mention that your graduates, in your opinion, are not as well prepared for the profession they are entering when they graduate from our Ontario universities as they would be if they were in another province. Could you elaborate on that for me a bit please? That disturbs me and it has connotations in the free trade context, indirectly.

Mr. Beach: I would like to clarify. I think once our graduates do graduate, they are as well qualified as in any other province or anywhere in the world for that matter. In Canada, we have a uniform Canada-wide, country-wide exam. The provinces prepare their students to sit this single examination, which is held once a year for all candidates from across the country.

The phenomenon that David Wilson was referring to is that at this uniform, Canada-wide examination a decreasing percentage of Ontario candidates has been passing and our percentage pass rate at that uniform exam is much

lower than for candidates in British Columbia, Alberta, Saskatchewan, Manitoba and, to some extent, from other provinces. That is because the education systems in those other provinces have focused more precisely or have accommodated the institutes or the professional bodies in those provinces better in preparing chartered accountants.

In Ontario, the vast majority of universities for one reason or another have not shown the same interest in courses heading towards professional accounting and there is not the same degree of co-operation with the profession as some of those other provinces have enjoyed. Once they become CAs here they are as well qualified, but it is more difficult for an individual student here to become one.

Mr. Pelissero: Just so I understand the process, in a previous answer you said--if I understand it now and maybe I do not--before they write this standard national test, they graduate from university; then they are in the workforce for three years.

Mr. Beach: Two to three years.

Mr. Pelissero: So a function of their doing well or not doing well in this national standard test, really on the surface, has very little to do with the fact that they left university two years earlier and are in the practising workforce for three years before they write this national test.

Can you help me in clearing that up? I could see your point if after they graduated from university, they then wrote this national test. Then Mr. Villeneuve's point may be a little more substantive. But the fact that they have left the towers and pillars of higher learning to enter the real world and have two or three years' experience of the real world and then write the test--I am having some difficulty understanding the correlation. Maybe you can explain it for me.

Mr. Beach: For some time, Ontario has had the philosophy that education should be delivered by the universities and that the institute's role in education, as opposed to practical experience, should be restricted to one professional finishing school of about four weeks, operated by the institute. Typically, the student will graduate from a university. He or she will be required to have certain university credits in accounting, auditing and tax, the subjects that are the core of our program. He or she will become employed by a firm, will attend this four-week professional finishing school and will write this uniform final examination soon thereafter, often after one year of practical experience, because they do not have to wait until the completion of the practical experience to write the exam.

While the practical experience probably helps some students in successful completion of the exam, it is not clear what that correlation is. In Quebec, for example, students can write the uniform final exam without any practical experience. They write it right out of university. They are none the less required to take the practical experience. We believe that professional qualification requires education, passing the exam and getting a prescribed amount of practical experience, under prescribed conditions. That is the scenario.

Mr. Wilson: I think we should also make a couple of other points. One of our problems in Ontario is that we have about 16 universities offering streams leading to our requirements in perhaps 50 graduate and undergraduate programs and that sort of thing. These various programs cover some of our

required courses. A number provide all of them, as we now express those requirements.

The requirements we have expressed for university education for Ontario candidates are lower requirements than are expressed by the provincial institutes in the other provinces, as has been indicated. There is a very specific reason for that: We have great difficulty in getting all the universities to offer what we have expressed and required, and there are very discouraging prospects of expanding the requirements.

We have tried to work--some of that is demonstrated in the brief--with the university system to expand in this way. It is not for me to say whether we have enough or too many or the right number of lawyers in the province, but we do have six or seven law schools. We do not have any professional schools of accounting, with the exception of the initiative that was taken at the University of Waterloo, which is outstanding but is far too small in terms of our overall needs. It is only the beacon that we should all be moving towards. It is that kind of resourcing that will give us that kind of course structure that will allow us to be competitive with the other provinces.

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In the absence of the support of the university system, we have been trying and struggling to decide whether to open up our own school of accountancy and run it outside the university system, which would have very interesting implications. For example, we would probably hire away all the good accounting professors, because we would pay them what they are worth, which the university system does not do. We think that would not be constructive to the province, so we do not want to work that way; we want to work within the university system.

For a long time now, we have laid out a blueprint. We have a white paper on professional schools of accounting that we put out in 1981 to all the universities. We have talked to the Council of Ontario Universities about it. It was instrumental in the Waterloo progression. Behind that is financial support; behind that is manpower support.

We have about 25 new, or about to become PhDs in accounting in Ontario universities, solely because of the Ontario Institute of Chartered Accountants. It has nothing to do with anybody else. We have a doctoral studies support program that has been going on for about 11 years now, whereby we give very generous support on a forgivable loan basis to young chartered accountants who might like to get PhDs and teach accounting in Ontario universities.

The sine qua non of their getting the loan forgiven is that they come back to Ontario and teach in Ontario at Ontario's universities. When they do not do that, they have to pay the loan back. We have had to face that challenge to make the program stick and be meaningful. We are anxious to be builders of the university system and it is important not to leave the impression that we are here to criticize the system.

We would like to be builders of that system and there is a tremendous amount of evidence over the years and in the current material to indicate that. We are very frustrated that the grant system to universities does not seem to zero in towards helping this kind of need. If the government of Ontario wants to talk about centres of excellence, one of the areas it could start with--it could have a tremendous productivity because there is very

little there now. Aside from the University of Waterloo's special program, they would be going from virtually nothing. There is the place to do it. There is a centre of excellence focal point, which is in dire need. We would like to see that kind of thing happening.

We also think the universities have a little trouble with their own internal accounting. It is ironic that it is an accounting problem within the universities that seems to cause difficulty in flowing the funds to the areas that bring in the new activity. It is ridiculous. We are frustrated and I hope that is showing, because we would like to build.

The Vice-Chairman: I think we are getting the message. Might I point out to everyone, because we started late, that I would envisage, unless the committee directs me otherwise, concluding this debate about 11:25 p.m. Mr. Villeneuve, would you like to continue?

Mr. Villeneuve: Just one more question: How many graduates will be graduating from the universities annually and how many of those would be chartered accountants as opposed to the other types of accountancy? I believe there are certified general accountants, certified public accountants or whatever.

Mr. Beach: Our graduating class has varied from about 700 to 900 in recent years. They, of course, come from a lot of different universities. They are not chartered accountants at that point, but they complete the training in the professional school and pass the uniform final examination.

Mr. Villeneuve: What is the minimum articling or experience time required?

Mr. Wilson: Two years.

If I could just add on the other part of your question, the university degree requirement is ours. The certified management accountants have recently moved to a university degree requirement in Ontario. The certified general accountants do not have a university degree requirement. The certified general accountants in Quebec have just moved to one, and that is clearly the worldwide trend.

Without getting into details and being respectful of the clock, we make mention in here of the International Federation of Accountants and we are active in that area. They prescribe on a worldwide basis what is appropriate for public accounting preparation. It includes university graduation.

Our firms would hire about 1,200 or so university graduates a year in Ontario. Some of them move through the stream in two years, some in three and some take a little longer. A number of the people we hire in that 1,200 would not come to us with all the credits they need, so they have to work through that in part-time courses, wherever they can find them, again because of the lack of integration in the university system. That is why we dropped down to around 800 or so in our current output.

Our attrition rate is not bad. It is a fact that if anybody gets into our system and once writes the uniform final exam, even if he has to repeat it a time or so, we have about an 85 per cent overall success rate. Attrition is not substantial in our profession. In some other professions, it is horrendously large.

Mr. Haggerty: I was reading the preamble to your discussion here this morning. You are talking about the Canadian professional tradition developed through self-regulating professional bodies. In the brief submitted to us, you say that apparently they do not have a similar policy in the United States of a self-governing body and that this may have some effect upon free trade if they come in and--I was thinking of the word "harmonization" that comes into free trade.

The question is on the matter of our schooling. The education system here in Canada, particularly in the province of Ontario, is a different system from that in the United States. Perhaps they gather most of their funding from the football games that are on television and from the private sector, more so than from government, as they do here in the province of Ontario.

What effect will this have upon your educational facilities here in Ontario in this area? Is there a possibility that through harmonization, they will say, "No more subsidization by governments of the universities"? Is that a possibility?

The other question is, in the free trade agreement, there is one professional group that seems to have an in with the federal government and that is the architects. How come the professional engineers in Ontario and other professional groups such as yourselves have not been included and provided with some of that protection, as applied to one of the professional groups?

Mr. Beach: On the latter question, are you referring to the fact that the free trade agreement materials that have been released make reference to the architectural profession?

Mr. Haggerty: Yes, that is right. They seem to have an in with them.

Mr. Beach: My understanding is that when they were putting the free trade material together, they knew something about architecture. Whoever was doing it knew something about architecture and that was put in for that reason and probably not for any other reason. I would welcome a comment from anyone else on that.

Mr. Haggerty: I thought they may have designed the agreement with the United States, as architects.

Mr. Wilson: It is a small situation. There would probably not be 16 schools of architecture in North America as opposed to 16 universities in Ontario. It is a much simpler scenario for them to work with.

We have talked to the architects, to our counterparts there, and the ones in Ontario say they are comfortable with what they have seen so far, but they have not seen a hell of a lot. They are only comfortable if the suggestion that a strong licensing regime, which is vested by virtue of having to become a member of the Ontario Association of Architects, is in place. If that does not come to pass, then they are not interested. That is exactly the kind of approach we would be taking too.

In terms of education, I will just make this one comment to you. I went and visited the executive director of the National Association of State Boards of Accountancy in New York to chat with him about a variety of regulatory matters, including free trade. He had not seen a copy of the agreement. He had

not talked to anybody who had seen a copy of the agreement. It is not getting the focus in the US profession that it is with us.

One of his thoughts on the examination area was, "Maybe we should all write a common exam; everybody in North America write the same exam to become a CPA or a CA." He did not throw that out in any way that suggested he wanted to violate our sovereignty or anything like that; he just threw that out as maybe being a constructive goal to work towards.

Do we go down that road? Not unless we take it a step at a time and we do not have any potholes in front of us. We need structure and institutional framework, partly through this Legislature, to be able to do that.

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The Vice-Chairman: I point out to Mr. Haggerty and the committee that the research assistant, Mr. McLellan, has indicated that the architects have been negotiating about a year in advance on a pretty regular basis and perhaps that is part of the justification of that particular clause.

Mr. Haggerty: I just wondered why one single group of professional people were there.

Mr. Wilson: Remember, we had a reciprocity arrangement that this California Superior Court decision threw away in about 1980. It is very interesting. Let us assume free trade gets implemented in all the various structures the way everybody likes. It is still not absolutely certain, particularly when you think of the US court scene, that it would stand up to a court challenge by, let us say for example again, the Filipino CPAs. We would not know that. There is probably a slight wild card in some of the discussion there.

After the California Superior Court decision, the National Association of State Boards of Accountancy and the American Institute of Certified Public Accountants--they have to get together, otherwise nobody gets anything done over there--and our Canadian Institute of Chartered Accountants negotiated for four years to try to restore some semblance of reciprocity. They failed because of the legal framework. The free trade thing may overcome that. That would be attractive to us, if it overcame it.

Mr. Haggerty: Just on that point, though, this is one of the fears I have with it. The word "harmonization" comes into the picture. You go in and say, "Yes, we can make an agreement with the professional people here that our standards will meet yours over there," but then the question comes back later that it would probably be based on their terms, not on the terms here. I have some fear that eventually they would say, "Now we are going to have control of the university education system in Canada," and our culture will disappear, even our sovereignty in this particular area. It could happen and will.

Mr. Wilson: Our point would be that could be unless you keep bodies like us strong.

The Vice-Chairman: If there are no other questions, gentlemen, let me on behalf of the committee thank you very much for taking the time out of your extremely busy schedules, especially subsequent to yesterday's budget release. We appreciate the input from the Institute of Chartered Accountants

of Ontario and I am sure we will hear more from you when the implementing legislation is released.

Mr. Beach: If our office can be of any further assistance to you, please get in touch with Mr. Wilson or Mr. Hannaford.

The Vice-Chairman: I now release the chair to the chairman, Mr. Cooke, who will take over.

COMMITTEE BUDGET

Mr. Chairman: I have not looked at these documents Mr. Carrozza has prepared. I only know that I think one of them is a generic budget. The other one is a budget that will include travelling to places we need to travel to in order to assume the knowledge we need to have. I am a little apprehensive about dealing with budgets at this stage until we get our--

Mr. McCague: You screwed up the last one.

Mr. Chairman: Pardon?

Until we have our priorities set. I do not feel that at the moment we have our priorities set beyond preparing our report. But it is necessary that we take a look at a budget because we are in a new fiscal year now. In fact, this morning I suppose we are drinking coffee we have not paid for.

That being said, I wonder if I might pursue a bit of a diatribe with you for a couple of moments. The committee has done a very thorough and exhaustive review of the trade situation, the free trade agreement with the United States. Obviously, we are going to be preparing a report this spring.

I mentioned to the committee last week that I thought personally that we might want to take a look at the financial aspects of the Premier's Council report. Albeit that report is, of necessity, vague in many respects, it does set down some guidelines that the council suggests the Legislature and the government proceed with in the next several years. I think some of those guidelines would bear examination by this committee.

When this committee was first constituted, you will recall, we were given a resolution by the Legislature to look into the issue of corporate concentration. Most of you who are here were not here at that time, but some of you were. We did have extensive hearings on that issue. We did not do a report that was of any meaning--I think we did a one-page report--because we were not coming to any solid conclusions. I think we were not coming to solid conclusions in part because we heard some witnesses who extolled the virtues of the American system, which in so far as corporations and shareholders are concerned, perhaps looks fairer than systems in other countries.

Mr. Ferraro: May I interject? Did we not pursue corporate concentration in the financial sector?

Mr. Chairman: Yes, we did.

Mr. Ferraro: We limited it to the financial sector.

Mr. Chairman: Yes. I may be carrying on too long on this, but I will just remind the committee that with some of the lack of conclusions that we made then, it might be time now to look at some of those issues again. I say that for the following reasons.

One, the Premier's Council report does set some strategies, some goals and some suggestions with regard to approaches to industry.

Two, I think there is in this province and elsewhere in North America ongoing activity in the corporate sector, particularly with regard to corporate takeovers, which I am sure the Ontario Securities Commission is policing with regard to the best interests of shareholders. But I do not know whether anybody is really looking at it with regard to the best interests of the public, which I would think have to do with productivity, jobs and things of that nature. It may be that the committee will want to look at that.

That does not rule out the idea of continuing to look at the trade issue. I know the travel budget has to do with travelling with regard to the General Agreement on Tariffs and Trade but I think we should also be thinking of the whole concept of global industry and our place in it.

That being said, I saw Mr. Mackenzie's hand. Perhaps we can discuss that for a few minutes and then move on to the budget.

The other thing that Mr. Carrozza said I should mention is that we have asked for Treasury's estimates.

Clerk of the Committee: Not yet. We are going to discuss that.

Mr. Mackenzie: Just on the last topic you were discussing, my colleague was discussing it with me. He has raised the concern about trying to come up with a report on the corporate concentration from hearings we held before the last election with the previous committee, which raises some serious questions in my mind.

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Mr. Chairman: I would not be expecting this committee to be perusing that evidence. It would have to be something the committee would decide it wanted to investigate at this stage, 1988.

Mr. Mackenzie: Yes. That is a different matter. I think the problem is still there because we never really came to grips with it at all; just some useful information.

Mr. Chairman: No, we did not. I guess that is what I am trying to bring to the committee's attention. A previous committee looked at it. That does not mean that information is here now although certainly, where relevant, it could be mined.

Mr. Mackenzie: One of the other things that I want to raise, and I do not know whether I am doing it in a proper order here, is the fact that I was just asking our research staff about where--and it was because of one of the memos Ray gave us--the study by the professor at the University of Toronto was. I gather that because we have not had any funding approvals, there has been no go ahead on that. That disturbs me no end because we were supposed to have something on it.

Here we have two bits of information. First there is the fact that the Attorney General (Mr. Scott) is not, at the moment anyhow, releasing the constitutional audit until he has had a chance to review it. We do not know how long that is going to be. Second, we may get something out of the standing committee on foreign affairs from the Senate that may be useful to us. But

here we asked, really as a result of the initial reaction of the Attorney General's department, that maybe we should look at it ourselves--I am not putting that in a negative way--in this committee.

We did a lot of discussing on wanting to get that report, which I think is still fundamental to any recommendations that we might make out of this round of hearings. It has not even been proceeded with, even if that was carved out. Something has to be done to break that logjam. I am more than a little disturbed to find this out.

Mr. Chairman: The resolution of the committee to retain Professor McPherson was subject to approval by the Board of Internal Economy. As a result of that, the clerk insisted, perhaps wisely, that I write Professor McPherson a letter pointing that out to him and pointing out that he perhaps should not commence until that approval was obtained. I signed that letter, approached Professor McPherson and said that I thought in an informal way that approval should not be a large stumbling block. But he indicated to me at that time he did not intend to start until the approval occurred.

Mr. Mackenzie: You can hardly blame him for that.

Mr. Chairman: Yes. Mr. Carrozza?

Clerk of the Committee: Mr. Mackenzie, we sent a letter to the Board of Internal Economy. They met on April 18 in their regular meeting. I have not heard anything since then. Also, they are meeting next week on April 25 and I was told that they will try to come to a conclusion regarding our letters at that time.

Mr. Chairman: In other words, they did not come to a decision on April 18.

Clerk of the Committee: That is correct.

Mr. Chairman: Should I make a presentation to them?

Mr. Mackenzie: We are going to be euchred if we do not do something very quickly. I think that--

Mr. Chairman: Was there a debate, do you know?

Clerk of the Committee: No. I was not informed that the chairman should be appearing before the committee. I was simply told it was on the agenda and they will be looking at it.

Mr. Mackenzie: Can I suggest, unless there is a disagreement with this committee or with the chairman, that the chairman be asked to attempt to make his views known as strongly as he can at that meeting. Otherwise, we have been playing games with the weeks and weeks we have discussed this.

Mr. Chairman: Yes.

Mr. Mackenzie: We finally did decide, I think unanimously, that the one report at least was vital out of them.

Mr. Ferraro: No, it was not unanimous.

Mr. Mackenzie: Was it not? I thought it was.

Mr. Chairman: I will appear then. Is it April 25?

Clerk of the Committee: Yes.

Mr. Chairman: The time that has been lost in this regard begs the question of whether it is necessary to redraft the agreement. I think we asked him to have it finished by some time in May.

Mr. McLellan: I think that could be done fairly easily. That would just be a matter of changing the date.

Mr. Mackenzie: I think it goes without saying that if we are going to get him involved, he is probably going to need a little more time. I think time is of the essence in this thing. Time is important. It is obvious to me he is going to need a little more time if he does this.

Mr. Chairman: Yes.

Clerk of the Committee: The professor was fully informed of these dates, he understands and he is waiting for the answer still on the 25th. He did say that we have to discuss again a deadline and the other dates that were put in the contract.

Mr. Mackenzie: Given that it is this late, it would be unfair to anybody if we did not allow for that.

Mr. Chairman: We will have that contract letter of intent redrafted so that it includes looking at the implementing legislation which--

Interjection: It should be out in May some time.

Mr. Chairman: If it comes out in May. I have heard different predictions on whether that will be available. Is there any other comment before we get into the actual budget? I just thought it would be best to have some of those comments out on the floor before we move ahead.

Mr. McCague: I would just like to say that if the rumours are right as to the kinds of things that are going on at the Board of Internal Economy, I think this committee, for one, should be telling the board members to stop acting like children and approve some of the budgets which have something to do with the working of committees around here.

I do not aim that at any particular party or person. I just think it is time they looked after the business at hand and stopped what would appear to be stalling. Franco is right. If he does not get a call for you to appear at the committee, it may be on the agenda, but what does that mean? Item 84 on the agenda and they have no intention of going beyond 24. I think you have to be a little strong with them on this one, and let us keep business rolling around here.

Mr. Chairman: I fully endorse everything you have said to me. I suggest that maybe we get a list of the members and we all lobby them. I particularly intend to talk to as many as I can before the 25th.

Mr. Haggerty: Just following Mr. McCague's comments and looking at the priorities set in the standing committees of the Legislature, I think this committee has one of the top priorities. We see where other committees are travelling all over the continent or other continents, and here is a committee

dealing with a matter which concerns economic development here in Canada and in Ontario. Yet we seem to be just held down to probably the bottom of the list.

I think it is time the committees moved forward and keep looking to deal with the problems in free trade. The GATT is another one that should be of concern to us in how it affects Ontario. We see how it has affected the wine industry. We are going to see how it will affect the beer industry in Ontario. Who knows what else is going to be affected by it? We cannot leave it up to our federal counterparts to do the negotiating or bargaining. We have to have some input, give some directions in that area.

Mr. Chairman: That fact, of course, is something I have been fairly hot about, especially with the time this committee has been given to sit. You will recall that we made some representations, passed a resolution in the fall that we should be allowed to sit on Tuesday afternoons. The House leaders have wrestled with that. I think the problem is, frankly, that the two opposition parties have trouble finding manpower.

The House leaders, I understand, have come to the conclusion, although it is not one that would be formally transmitted to the clerk, that we will now have permission to sit on four Tuesday afternoons at our pleasure. The problem is that two Conservative members of our committee do not have House duty on Tuesday afternoons and, if they were to sit, that would mean usurping time they would otherwise be using to do constituency work, etc.

I have talked to Mr. McCague about that and requested that perhaps we find four days as soon as possible to schedule sittings. That would help us clean up the trade hearings, etc., or get started on something new, as we will. I do not know whether you have come to any conclusions on that, Mr. McCague.

Mr. McCague: We caucused the subject yesterday. The general consensus of our caucus was that we not agree at this time to the extra sittings. If something comes up that is more urgent, we would reconsider it. Witness what you just finished telling us this morning, that we do not have Mr. McPherson yet. Some of my colleagues here on this committee have raised the issue as to how much we are spinning our wheels at the present time. In the absence of that report, we are really spinning our wheels, but we are doing a decent function in allowing people to come in and talk to us if they so choose; that is part of the democratic process. But we do not see any point in agreeing to additional sittings at this time, given the kinds of things you have just reported to us.

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Mr. Chairman: The problem, I think, is that the urgency occurred, really, over the fall and winter. I would agree that we are not in an urgent position for the need for the time now, compared to what we had before. That being said, and your caucus having made that decision, I would just exhort you to be prepared to reconsider quickly if and when urgent issues arise.

Mr. Mackenzie: Just for the record, our position is fairly clear on it, too. We are not against considering it if we get a schedule and the importance is there that says we have to. We do not think it should be scheduled on a regular Tuesday basis. We think the one meeting a week is adequate, but we would reconsider or look at, as you have said, three or four additional Tuesdays if the schedule seems to require it. But we would want to see that before we set a schedule of regular Tuesday sittings.

Mr. Chairman: That being said, let us take a look at the budgets.

Clerk of the Committee: I presented two budgets. One is a strictly standard type of budget. That is for \$143,000. It calls for eight sitting weeks. This year we sat eight weeks, so it is basically expenditures that were made last year. The budget is divided into about 20 subgroups, and with the expenditures from last year, I combined the two to come to this conclusion.

The committee wanted to have on its budget a proposed trip to Europe to visit the General Agreement on Tariffs and Trade, to visit the European Community and the Organization for Economic Co-operation and Development. In the second budget, I have placed the expenditures that that trip would incur, and that is the difference of approximately \$33,000.

Mr. Mackenzie: Could I ask you a question on that? How many days are you allowing for both meetings and travel, in total?

Clerk of the Committee: I have placed a week for the committee to travel to Europe, for an overall total of seven weeks in Toronto and one travelling. I could expand that if the committee wishes.

Mr. Mackenzie: This is what I want to get clear. You are talking about seven days in total, travel and meetings?

Clerk of the Committee: Yes.

Mr. Mackenzie: If you are going to put anything in it at all, you had better think in terms of about 10 days or you are just rushing yourself off your feet. I have gone through a couple of those committees, and let me tell you, we are working more hours than any committee I have ever been on, in terms of our Washington trips, with absolutely no free time. If you want to kill yourself, that is the way to do it.

If you are going to include it at all--and I think it is worth putting it in the budget generically so at least it is there whether you use it or not--you had better think in terms of two or three more days than you have, or you are kidding yourself. I do not want an overnight flight there and an overnight flight back and four solid days without a break, if we do it at all. It just does not make any god-damned sense.

Clerk of the Committee: Please understand. This budget here is just--

Mr. Mackenzie: I understand. I am just making my views known clearly, if you are going to do it.

Clerk of the Committee: No problem.

Mr. Chairman: Can you give us a rough estimate of what it would cost to expand that to 10 days of hearings?

Clerk of the Committee: Right off the bat, I cannot. I would have to look at it.

Mr. Chairman: But the major cost of these things is air--

Clerk of the Committee: I have here for seven days, and it is approximately \$30,000. An extra three days would be a percentage of that; it could be \$35,000 to \$37,000.

Mr. Mackenzie: Mr. Chairman is a worse slave driver than my own colleague Fred Young was.

Mr. Chairman: That is not counting the air fare, though.

Clerk of the Committee: The air fare would be the same, because we would go--

Mr. Chairman: That is what I am trying to point out.

Mr. Pelissero: Are we going to deal with this now?

Mr. Chairman: I was hoping to, unless there are some serious problems with it.

Mr. Pelissero: I have a briefing at 12.

Mr. Chairman: At noon?

Mr. Pelissero: Yes.

Mr. Chairman: OK, let us think really fast for the next 14 minutes.

Mr. Ferraro: I am wondering if the clerk can tell us--considering the fact that the economic aspect to be dealt with here to some degree is a major part of the resistance on much of the work that committees do--how much the committee spent this year, approximately, on our trips to Washington.

Clerk of the Committee: Without the cost of the consultant, it was about \$14,000.

Mr. Ferraro: With the consultant, it was how much?

Clerk of the Committee: It was \$21,000.

Mr. Ferraro: I realize that this is going to be difficult for some people to comprehend to some degree, to justify a trip to Geneva, Switzerland, in order to deal with, in my view, a large and extremely important aspect of economics and financing in our province--that is, dealing with people from GATT and the European Community. In straight economic terms, we are talking of a differential of roughly--at least, based on seven days--\$7,000.

Clerk of the Committee: That is right.

Mr. Ferraro: When they discuss trips, it is always difficult for politicians because, of course, the media will say, "You are taking advantage of the taxpayers." I suspect no matter where you went, that criticism would be evident.

Let me say that in my three years here, and having been a member of this committee for three years, we have in a nonpartisan way, in my view, expounded on numerous occasions the importance of our trading relationship with the world. Indeed, it has been expounded ad nauseam by politicians from all parties that we have to expand our trading markets to other parts of the world, particularly the Pacific Rim and indeed also to the European countries.

In my view, because we rely so heavily on trade and because we are the standing committee on finance and economic affairs--and I am not particularly

concerned whether a trip is seven or 10 days, although I totally respect my colleague's opinion in that regard--

Mr. Mackenzie: Cut out one cabinet minister's junket.

Mr. Ferraro: --it is totally justifiable for this committee. I say without hesitation I support it, and I believe the taxpayers in Ontario and the government would be well served. Some of the veteran members, if I may call them that, may enlighten me and other members of the committee as to whether such a committee has ever participated in economic forums on an international basis, save and except the United States. I think it is totally advisable that the committee undertake this trip.

Mr. Chairman: Would you move, then, that we undertake to travel on a fact-seeking mission to the GATT--

Mr. Ferraro: And the EC.

Mr. Chairman: --and the EC and the Organization for Economic Co-operation and Development?

Mr. Ferraro: I would be happy to move that. And I am conscious of the fact that in my understanding it would be the only trip this committee would take during the year.

Mr. Chairman: Yes.

Is there any discussion about London?

Mr. Neumann: With Mr. Mackenzie's proviso of the 10 days rather than the seven.

Mr. Chairman: Do you want the 10 days? Would you add that to your motion?

Mr. Ferraro: Yes.

Mr. Chairman: Any discussion?

Mr. McCague: I would go along with you, as long as we meet on Sundays and have an opportunity to shop during the week.

Mr. Chairman: All right.

Mr. Breaugh: Call the question.

Mr. Chairman: I think we need two motions. One is the motion that is on the floor, which has been seconded by Mr. McCague with that proviso.

Any discussion? All in favour? Opposed?

Motion agreed to.

Mr. Chairman: It is carried unanimously.

We also need a motion to pass a budget, which would be the \$176,000 budget, amended to include 10 days' travel.

So moved by Mr. Pelissero.

Any discussion? All in favour? Opposed?

Motion agreed to.

Mr. Mackenzie: That is not 10 days just travelling; that is the total.

Mr. Chairman: No, no. We are getting caught on our words here.

Mr. McCague: Just one other thing, so that all parties are represented. I just suggest that you need a reasonable rationale for what it is we are going to do, and you might want to prepare that for the committee.

Mr. Chairman: Yes, I think the politics of the case--

Mr. McCague: The sage words of your vice-chairman could be incorporated.

Mr. Chairman: Yes.

Mr. McCague: The other thing is that I am not sure where you are coming from on what it is we are going to do for the balance of the year. I just wonder if you might consider giving us something in writing as to what you see the agenda of this committee being for the money that you are asking for.

Mr. Ferraro: Or have the subcommittee.

Mr. McCague: Or whatever.

Mr. Chairman: Would it be appropriate to have a subcommittee meeting?

Mr. McCague: Sure, if you choose to do that.

Mr. Chairman: I think it is all right.

Mr. McCague: I think right now we are without direction.

Mr. Neumann: We could do both. You could give some thought to it and then call the subcommittee together and have it review what you have--

Mr. Chairman: All right, I will try to do that. Why do we not have the subcommittee meeting first, and then my essay can touch all bases? We will organize that as quickly as we can then.

Just for the record, I just should mention, as you are all aware, the G-7 economic summit is occurring in this city on June 19-21. We are a finance committee, but I think we might get trampled on by the hordes. I am not sure whether there is any presence that we can present at that summit or anything we can be doing.

Mr. Neumann: Put it on the agenda.

Mr. Chairman: All right, we will.

The committee adjourned at 11:54 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, APRIL 28, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Keyes, Kenneth A. (Kingston and The Islands L) for Mr. Ferraro

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of the Environment:

Posen, Gary S., Deputy Minister

Individual Presentation:

Drache, Daniel, Professor, Department of Political Science, York University

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, April 28, 1988

The committee met at 10:05 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: The committee will recall that before we went to Washington, we met with the Canadian Environmental Law Association, which raised some very interesting issues with regard to the effect the free trade agreement may have on our environmental protection laws. So we have with us today from the Ministry of the Environment the deputy minister, Gary Posen.

Mr. Posen: And our executive director, corporate resources division, Andre Castel.

Mr. Chairman: Welcome to the committee. Perhaps you could open with some comments as to what the ministry is doing at the present time and then entertain some questions.

MINISTRY OF THE ENVIRONMENT

Mr. Posen: I will make a few opening comments, just to note that with the Prime Minister still in Washington after a day of meetings with President Reagan and administration and congressional leaders, the environmental implications of the free trade agreement are particularly topical today.

We have had early reports, analyses and predictions on this agreement, but little that is firm or conclusive. My message today is that the impact of the free trade agreement on the interests and responsibilities of the Ministry of the Environment is uncertain and ambiguous at this point in time. That is one of the most frustrating aspects of dealing with the subject of free trade and the environment.

The agreement must still be worked out in detail and has yet to be ratified. None of the legislative work necessary for its implementation has been made public. We just do not know what the rules and decision-making processes will be.

Unfortunately, the environmental impacts related to free trade have not been identified in the agreement itself, and the view has been expressed at the federal level that we are left here with a purely economic instrument designed to facilitate trade between the two countries. The federal Minister of the Environment, for example, has stated that the agreement specifically excludes environmental matters and therefore will have no effect in the area this committee is reviewing today. I am not so sanguine.

Several weeks ago, you heard a presentation from representatives of the Canadian Environmental Law Association regarding their analysis of the environmental implications of free trade. CELA is a respected and well-informed organization in this country's community of environmental public interest groups. They well express the level of concern among these groups.

Allowing for the uncertainties related to the agreement which I have already highlighted, the ministry agrees with CELA that there are a number of potentially fundamental issues. We would raise five concerns for your consideration:

First, will the agreement alter the way hazardous products are evaluated in this country?

Second, does harmonized standard-setting mean higher or lower environmental standards ultimately?

Third, will free trade affect the development and implementation of pollution regulations to protect Ontario?

Fourth, can an agreement cramp our ability to pursue environmental policy through economic incentives?

Fifth, and finally, what impact will free trade have on a conserver strategy and on our control over the use of our natural resources?

Bear in mind as we review these issues that the agreement purports to bind both federal governments to take all the necessary measures to ensure that state, provincial and local governments observe the terms of the agreement.

Let us look first at hazardous products, notably pesticides, and the way they are evaluated and approved. Here the federal Department of Agriculture, in concert with the Department of National Health and Welfare, the Department of Fisheries and Oceans and Environment Canada, evaluates new products. Prime emphasis in their analysis is on potential impact on health and safety. In the United States, this evaluation is conducted by the Environmental Protection Agency, which must take into account economic, social and environmental costs and benefits.

This basic difference in evaluation criteria has resulted in significant differences in the nature and number of pesticides registered in the two countries. In the US there are about 40,000 pesticides registered for sale, as compared to 4,500 in Canada. These include alachlor and Ramrod, approved in the United States but denied registration in Canada.

Can we expect a move towards common evaluation criteria and a resulting increase in the number of pesticides registered for use in Canada? The chemical industry, which produces and sells these substances, and the farm and other industries which use them may very well press for this sort of expansion of pesticides availability. Yet we will be challenged with reconciling this pressure with Ontario's program to cut the use of chemical pesticides by 50 per cent over the next 15 years.

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On the other side of the equation, and regardless of the federal government's decision with regard to the future of a new pesticide, Ontario has not been without controls. Under our Pesticides Act we reserve the authority to classify pesticides in terms of allowable use and in terms of the operators who are permitted to sell, handle or apply them, and we enforce that authority. Over the past two years, we have laid more than 200 charges against 72 companies and/or individuals for abusing these regulations.

We can effectively restrict or prevent use of a chemical which, in the opinion of the Ontario government, is undesirable or environmentally unacceptable. This local option is also in effect in every state in the United States except Alaska, with many requiring controls tighter than those set by the Environmental Protection Agency.

Thus, as it stands now, we could not say definitively whether the federal government will open the door to more pesticides, leaving the onus on the provinces should we wish to maintain our more stringent controls. We, however, cannot even be sure that our authority is not undermined by the agreement.

In the second area, the area of environmental standards, the Ministry of the Environment supports the need for harmonization of environmental policies. At present there is considerable liaison among governments in the development of standards and policies. However, it is inevitable that as a result of different priorities, Ontario standards, Canadian standards and US federal and state standards often do vary. Where standards differ, we favour adoption of the more stringent level.

If the future review of standards is going to be influenced by the economic nature of the trade agreement to the detriment of purely environmental concerns, the net result may be less stringent standards. On the other hand, the effect may be negligible or may indeed encourage closer liaison among the various jurisdictions in developing better standards.

On the bright side, for example, in the European Community, collective trade agreements appear not to have produced any noticeable relaxation of environmental standards. Similarly, the various countries have not lost their rights to pursue their own environmental policies. However, the precise impact on the dynamic in Canada and North America is unpredictable.

A third area of concern is the potential that the agreement could have on Ontario's ability to provide an effective regulatory framework to control pollution. Our municipal-industrial strategy for abatement and our clean air program appear to face no apparent direct threat from the agreement. There may, however, be indirect effects. For example, the economic impact of the agreement on individual industries may have some influence on their financial ability to meet pollution control requirements.

Of even greater concern, however, is the potential for Ontario businesses to pressure us for environmental controls of no greater economic consequence to them than those facing their key competitors in the US. This perspective is not particularly new, but the free trade agreement is likely to give it added impetus.

Fourth, another area of uncertainty arising from the nature of the agreement is the use of positive incentives to encourage the attainment of environmental objectives. Ontario and the federal government have used economic incentives to achieve environmental goals. The most notable one currently is the pledge of assistance to ensure that Canada's major private sector acid rain sources meet our abatement targets. There is always a risk that an economic incentive can be challenged as an unfair subsidy, improving the competitive position of an industry and contravening the free trade agreement.

Another example that I would raise is the Ontario Waste Management Corp. It is developing a waste treatment facility, using public funds, which will

ultimately compete with other facilities. Are the operations of the corporation or its future pricing policies subject to challenge under the agreement? Again, on the grounds of both definition of "subsidy" and treatment of a government monopoly, we cannot answer that question with any assurance.

A fifth concern relates to the longer-term objective of integrating economic and environmental perspectives. As you know, the Brundtland commission and the National Task Force on Environment and Economy have stressed the need for sustainable economic development. Ontario is now at work in preparing the foundation on which to develop a conservation strategy for the province.

In a free trade environment there may well be substantial pressure to use our resources at an increased rate. This pressure can come both from the United States, where demand may be high for raw materials, and within our own borders from people who want to derive maximum gain from increased market opportunities.

This country's economy has traditionally been based firmly on resource development. Undue exploitation may produce an impressive surge in apparent wealth but in the long run may also deplete the assets we need to sustain our economic prosperity. The temptation to take the money now, at the expense of long-term security and self-sufficiency, should be resisted. Economic prosperity and environmental protection are not at odds and, indeed, are complementary.

In all of these areas I have raised, I fear there are more questions than we have answers. Under the best deal possible, I believe we will still face some serious challenges in our attempts to maintain our environmental integrity in the face of the pressure for economic tradeoffs. There is much more certainty yet to be established as the two countries work out the details of the agreement. We believe there are potential hidden pitfalls which Canada should try to avoid, especially in terms of environmental side effects.

I have reviewed the ministry's concerns and our reservations and would be happy to deal with any questions.

Mr. Chairman: You have done a very clear job of that, and I appreciate it very much. I understand that we will be receiving a copy of your presentation shortly.

I have not actually heard or read the transcript of the Prime Minister's address to Congress yesterday, but the report I heard this morning suggested that he did not give as much emphasis to acid rain as was expected, so the federal lack of concern may be continuing.

Mr. Kozyra: Mr. Posen, you touched on this--speaking mainly to your point 3, pollution regulations and protecting Ontario--and you said perhaps there would be pressure on Ontario business to lower its standards to compete on that level playing field again. Could it also work in a way--and I think you touched on it; I would like you to expand on it--a while ago, the \$100-million superfund for aiding forest products industries to clear up their pollution was announced. Would this or could this be seen as unfair subsidy and be attacked and therefore make it very difficult to proceed that way?

Mr. Posen: Using, for example, the \$185 million that the governments have put aside to support companies in their efforts to reduce their acid rain emissions--Ontario Hydro exports, and certainly Inco, Falconbridge and Algoma

all export their products--it is possible, until the definition of "subsidy" is worked out and the relationship of the section which allows governments to undertake activity to protect the environment. What the relationship and weights of those things are we cannot be certain, but at this point we can say that yes, potentially there is a problem; that Americans want to go after those programs and use their countervail legislation. I would say at this point that they are potentially at risk.

Mr. Kozyra: I think what has been indicated here as a potential or indirect threat is perhaps one of the most serious aspects we have heard to date. We have talked and focused on economic considerations in the main part with most presenters, but this indirect ability or reduction in our ability to control pollution standards as they affect water or air or what have you in the province could very well be the most serious threat of all.

Mr. Chairman: Do you know if any attempt has been made to dialogue with the Reagan administration, perhaps by our government, to see whether there is any interest in doing this sort of thing; for instance, countervail measures against--

Mr. Posen: Again, I think the difficulty of trying to talk to the administration is that most of the countervail petitions are initiated and submitted by the private sector, so it really is a question of whether any of these companies find you, as competitors, trying to countervail. It may be in terms of nickle producers that there are no serious competitors. Certainly we have already discovered in the softwood lumber case, on the forest products side, that there are competitors and that they will use the United States system if they feel it will give them an advantage in their home market.

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Mr. Chairman: It has never been a threat, though, that you are aware of?

Mr. Posen: They have never threatened to use the environmental side of it that way, but as we look at our municipal-industrial strategy for abatement program or the clean air program, in which we have set out as a possibility a lend program in terms of dealing with setting out criteria by which government aid may be available to companies that would require it, now we are going to have to look seriously at whether those would be regarded as subsidies in market terms as opposed to supports for achieving environmental standards.

Mr. Morin-Strom: Mr. Posen, the document makes explicit reference--I do not have the actual agreement here--but I recall bringing up with several witnesses before the explicit reference to the harmonizing of the standards in terms of the agricultural pesticides. You mentioned some figures that I cannot recall on the comparison of the number of regulated pesticides on the two sides of the border.

Mr. Posen: In Canada there are about 4,500 pesticides which are registered at the federal level and there are about 40,000 registered for use in the United States.

Mr. Morin-Strom: Does that indicate that there is a far greater use of different types of chemicals there, or does it indicate that we are using 40,000 as well but we are regulating only 4,500 of them?

Mr. Posen: Using Ontario, for example, I think we would be typical, but I think we control fairly carefully the pesticides in use here. The limiting factor for us is what is registered by the federal government. If they do not provide either temporary or permanent registration, we will not license it for use in Ontario; so I think I can be sure that if Ottawa has registered only 4,500 pesticides, there are a maximum of 4,500 in use in Ontario. What I am not sure of is whether there is just more competition in the US. There are more companies putting out the same kinds of pesticides, and therefore you are seeing the same substance being sold by five or six companies whereas it is sold by only one or two here.

Mr. Morin-Strom: In terms of regulated substances, are agricultural pesticides the largest group of regulated chemical substances on a broader scale?

Mr. Posen: I think that the federal government, certainly in the Canadian environmental protection act, the new one, is moving to control as many chemicals as possible before they go into industrial use. But I would think in terms of concentrated and focused program, yes, pesticides are the ones that are probably the most carefully looked at. Certainly as we are getting into our MISA program and the clean air program, we are going to have to be setting standards for chemical emissions and uses in a number of areas. But again, I am not sure at this point that we are anywhere near thinking of 4,500.

Mr. Morin-Strom: Do you have any idea of what the numbers are of regulated substances outside of the agricultural area?

Mr. Posen: I do not have a sense that I could provide you with.

Mr. Morin-Strom: What about in dollar value?

Mr. Posen: I am sorry, I do not have a sense of what the pesticides industry would be worth in Ontario or in Canada.

Mr. Morin-Strom: When we talk about the pesticides in agriculture, does that include pesticides in forestry?

Mr. Posen: Yes. In terms of regulation, it is for regulation for all uses in Ontario: home use, farm use, forest use, including extermination use in some cases, which would be among our most carefully controlled and limited uses.

Mr. Morin-Strom: The agreement to harmonize regulations on pesticides then, although included just under the agricultural part of the agreement, has pretty pervasive implications?

Mr. Posen: I think there are two parts of the report that are relevant to the question that you raise. There is the section where the governments are attempting to harmonize standards generally and to avoid using standards, be they health standards, environmental standards or consumer protection standards, as excuses for trade barriers. So there are pressures to harmonize across a broad spectrum of standards.

There is one that was exempted, for example; it is the standard that Canada sets for plywood. The United States sets a different standard. We claim that is weather-related, that we have to have a stronger standard for plywood. The Americans claim that we just do that in order to keep their plywood out of the country. So there is pressure on standards that way.

Pesticides were carved out as a specific under that in the agricultural part of the agreement. I think the part of it that has given rise for concern is section (f)(1) in schedule 7 of that chapter that we will work towards equivalence in the process for risk-benefit assessment.

"Risk-benefit" is precisely the term that the Environmental Protection Agency in the United States uses, in which it balances off the economic benefit against the environmental or health risk. I think it would be fair to say that their conclusion on alachlor, for example, was that the economic benefits outweigh the health risk. In Canada, because the weight has been much more on environmental and health risks rather than on economic benefits, the minister here, nationally, came to a different conclusion, that in spite of the fact that it was an economic benefit, the environmental and health factor was too great to allow its use.

Mr. Morin-Strom: So we have a potential serious problem of putting a value on protecting health.

Mr. Posen: I think, if these words are not just words but are meant to reflect the US system, then they imply that we will be weighting our assessment in a different way than we have in the past and that the economic factor will be given greater weight than it has been given before.

Mr. Morin-Strom: Thank you very much.

Mr. Chairman: That is a very sober reflection. Any other questions?

Mr. Neumann: I have a question in the area of energy. I realize this may not come directly under your ministry, but do you see any indirect impact on the environment of the continental energy policy and strategy which is foreseen by the free trade agreement in terms of possibly greater and faster use of Canada's resources and perhaps a need to turn to more megaprojects to supply the energy?

Mr. Posen: I think that the kind of criteria and standards that will now be used to determine whether there should be exports--in effect, the criterion becomes whether there are markets in the US--implies that the Canadian need and US need are being given equal weight so that if there is demand in the US it will increase the level of exports and we will run down our supplies more rapidly.

I guess the hope is that it will provide the basis on which to proceed with those megaprojects, which are located in Atlantic Canada, northern Canada and western Canada, and they are seen as agents of regional economic development from the federal point of view.

It has serious implications, it seems to me, for the commitments that governments have made to a sustained economic development in which we look at all our policies, including resource policies and economic development policies, and try to make an assessment of what kind of a balance there is between them. So in that sense, yes, there is a longer-term impact.

Mr. Neumann: I just thought of that as well last night because, just looking at our own market, according to an item on the TV news last night, increased demand for hydro led to greater use of coal and an increase of 27 per cent in acid rain emissions by Ontario Hydro over the last year. If we throw ourselves into the continental market, those pressures will be accelerated.

Mr. Chairman: Thank you very much for your presentation. I rather think that this committee initially probably ignored these aspects of the agreement as well. It has been brought to our attention very forcefully, and I am sure it is going to be considered in our final report.

On Tuesday there was a subcommittee meeting. Perhaps, while we have a few minutes, we can look at a report that was distributed to you. I do not see any of the subcommittee members here at the moment. Just looking at our plans for the future, we indicated that we would be doing basically the things that are in this report, if the committee agrees. The agenda for the rest of the trade hearings is also with you today; it ends on May 26.

Problems are continuing, I have to report, with regard to Professor MacPherson's assessment of the constitutional situation. Last Thursday, I had contact with just about everybody and anybody who could do anything about it, but the Board of Internal Economy still met on Tuesday of this week and did not bother to deal with it.

I should inform the committee, on the record, that on December 14 I presented a budget to the Board of Internal Economy. There were flaws found in that budget. At that time, I indicated in my presentation that I expected the committee would be coming back to the Board of Internal Economy with regard to funding for reports. We simply had not reached any conclusions at that time.

The budget was passed without alteration on the understanding that some of the moneys that were being granted were not going towards, I think it was, extra sitting weeks that we were not actually sitting and that there would be moneys put to other things such as this. For some reason or another, that just has not been looked at yet. I have implored them to consider that.

The problem seems to be that the year ended on March 31, and while we had a budget of \$210,000, \$95,000 of that was not spent and that money seems to be frozen. The more serious problem is that the Board of Internal Economy does not seem to get around to dealing with anything at any time.

I discussed the matter with Professor MacPherson, and his preference now would be to have until July 1 to complete this matter, if approval were to be given this week. Approval does not seem to be being given even this week. The subcommittee thought we should give him until June 15. I do not see anything other than procedural problems involved, and my inclination is, if necessary, to retain him on my own until such time as we get this nonsense cleared up. So that is where the trade agreement ends up.

There was some discussion about budget bills going to committee. I think the consensus was that most of them would not, but there might be some interest on the part of the opposition parties in sending the gas tax bills to committee, and this would be the logical committee to deal with any budget bills.

I think there was a consensus that we as a committee--it might not be the partisan view of particular members--were not particularly interested in seeking them out.

Mr. Villeneuve: A couple of good reasons why.

Mr. Chairman: Why what?

Mr. Villeneuve: Why you would rather not see it go to committee.

Mr. Chairman: Well, I am just speaking, I think, for the committee, because we have other matters on our plate. Obviously, there might be some partisan reasons to send some of the bills here, although frankly I think only the gas tax bill will come, but you gentlemen may have other views on that. I heard opposition people at our committee say there would not be any particular point, for instance, in sending the sales tax bill here.

Mr. Morin-Strom: Why?

Mr. Chairman: We would simply be hearing--

Mr. Villeneuve: After the fact.

Mr. Chairman: After-the-fact complaints.

A more generic value to the committee might be this: We had a look-see at the Premier's Council report, and the suggestion was that we have a member of the Premier's Council give us an overview of it and take us through it.

We talked about the matter that was passed last week with regard to Europe. The committee should be aware that the next meeting of the Uruguay round of the General Agreement on Tariffs and Trade is in a place called Montreal in December of this year. Any activity in Europe obviously should be in preparation for that.

On tax reform, we indicated in our prebudget report that we want to go into that more thoroughly, so that will be of high profile on the agenda for later this year.

The Treasurer's response, the prebudget consultation report, we are in the process now of assembling for you. Anne Anderson is preparing a paper that will be available today which will set out those items which were in our report that are in the budget and those that are not, so we can then investigate that.

Then we reiterated the need to be very early in our beginning the 1989 prebudget consultations. Obviously, they should start much earlier than they started this year.

The other matter that was not included in the report here was the G-7 conference in Toronto in June. I undertook to contact the Ministry of Intergovernmental Affairs to see to what extent committee members could be involved, at least on an observer basis, in that activity.

I would entertain any questions on that and, if there are none, a motion to adopt that report of the subcommittee.

Mr. Chairman: Mr. Kozyra moves, seconded by Mr. Villeneuve, that the report of the subcommittee be adopted. Any discussion? All in favour? Opposed?

Motion agreed to.

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Mr. Chairman: Next, we have Professor Daniel Drache. Professor Drache, would you like to come forward and have a seat.

I should indicate to the committee and to yourself that your invitation here results in large part from the paper you wrote for the symposium at York University in March. It is filed as an exhibit, and I think it is in front of members of the committee. I found it a very well written paper, I must say, and I was impressed by it. Unless you have some other things you want to raise with us, I wonder if you could perhaps lead us through it, and perhaps we could have a discussion.

Mr. Drache: OK.

Mr. Haggerty: Based on that, could we have a little bit of background. Is he a lawyer, is he an economist?

Mr. Chairman: Perhaps Professor Drache can tell us, because I do not know myself.

DANIEL DRACHE

Mr. Drache: My background is as a political economist. I am trained as a political scientist, but in the last 10 or 15 years, I have worked principally in the area of Canada-US relations, on foreign investment, economic development and the impact of new production technology on workers in the workplace.

Mr. Chairman: Your paper has been distributed, but politicians receive a lot of papers, so do not assume from what I have said that everyone has read it. As I say, unless you have some other agenda in mind, perhaps you could lead us through it. I think that would then generate some questions.

Mr. Drache: OK. First, I would like to thank you for your kind invitation.

What I was hoping to do this morning was to look at what I call the economics of continental power. From this perspective, the free trade agreement must be seen as a result of the asymmetrical power relations of Canada-US trade. Viewed from this angle, Canada was forced to make most of the concessions, because the United States made it clear from the outset that Canada had to sell the deal on its commercial merits to the United States. I think this is the overriding reality that people frequently have lost sight of.

The most important article that confirms the one-sided nature of the bargain process is article 1902. It says in effect that Canada is not excluded from US trade legislation that is subject to American protectionist laws. Each party retains the right to apply its antidumping and countervail laws to the goods and services of the other party. Antidumping and countervail include all laws, regulations, administrative practices and judicial precedents.

Canada clearly did not win exemption from the omnibus trade bill, nor is the United States prevented from changing its trade laws to suit its own commercial needs and industrial strategy on account of signing the free trade agreement with Canada. In this respect, it should be understood that the final text does not establish new trade rules and a mechanism for enforcing them. As Reisman himself noted shortly after the deal was signed, "This was the most unrealistic thing to expect."

In fact, the new tribunal is a cosmetic gesture that, for the Americans, simply substitutes one administrative tribunal with another to hear appeals. The existing US international trade court is replaced by a new administrative

trade body that is neither efficient, cheap, quick nor authoritative. Canadian exporters will still be harassed and subject to American trade laws, which are designed to be arbitrary, ad hoc and adapted to the needs of the moment.

This institutional flexibility gives the Americans the political means to deal with any situation that arises, despite agreements it has with its trading partners. It is this reality, the ad hoc, arbitrary nature of American trade law, that has escaped the attention of Canada's negotiators.

The deal is path-breaking, then, not with respect to trade disputes, but with respect to government legislative authority. In this crucial sense, it is not a free trade deal of a European kind, which protects the national rights of the countries involved. Rather, it lays the foundation for the economic and social integration of the two countries involved, on terms and conditions largely favourable to the United States.

The agreement restricts Canada's ability to modify its industrial structure. For this reason, Canadian governments will be unable to manage the economy strictly in Canada's national interest. Canada, in opening up its economy, has given the United States a large role in public policy-making.

A striking example of the text gives the United States, the dominant partner, enormous power. This can be seen in the fact that Ottawa has to change or amend roughly 18 major pieces of federal legislation in banking, energy, agriculture, services, investment and immigration. Americans have few fixed obligations to change their own legislation. For instance, they only have to amend three statutes that are named in the text.

A second striking example of how the agreement has failed to reduce the disparity of power that permeates Canadian-American relations is the principle of national treatment. This reinforces the power inequality between Canada and the United States. This is so because of the scope and regulatory importance of the free trade agreement itself. It becomes the new national policy for Canada, and all federal and provincial policies have to conform to its framework and goals.

Further policy harmonization is particularly dangerous for Canada. What has not been understood is that the principle of national treatment is not only an economic concept, but in the case of the Mulroney-Reagan accord, it amounts to granting the United States special status in Canadian political life. The power of the United States' political and economic forces will be brought to bear directly on Canada's institutions. Canada will be required to give up its distinct ways of coping with economic, political and cultural issues, while there is little in the agreement that really restricts US government policy practice. This is the price for unfettered free trade between two unequal parties.

In particular, Canada will be required to consult and obtain US approval to nationalize an industry, establish a new public monopoly, repatriate a cultural industry or mount new policies and programs that directly or indirectly affect US investment interests, commercial rights or access to Canada's resources.

The following key articles result in the loss of political authority federally and provincially:

Article 103 unilaterally extends the rights and obligations of the final agreement to spheres of provincial jurisdiction. I think this will be of

considerable interest to this committee. For instance, provinces will not be permitted to discriminate in favour of local suppliers over American companies. I think this has broad implications for the province.

Article 2010 deals with the establishment of public monopolies. This also affects provincial powers. Article 2010 is not only, in my view, directed against, for instance, the New Democratic Party, but is also directed against all political parties which in the past have used the authority granted them under the Constitution, under our federal-provincial scheme, to mount public monopolies in the area of economic and social policies.

This article restricts Canada's use of public powers for purposes that could be interpreted as creating or leading to anticompetitive practices which could adversely affect a person of the other party. Grounds include alleged discrimination against an American multinational by a crown corporation, cross-subsidization, or through predatory practices on the part of state enterprises. These are all the grounds which the provincial authority, in the use of creating a public monopoly, could be challenged by either the American government or by American multinationals who have access to the dispute mechanism.

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Article 1603 prevents Canadian governments from demanding performance requirements or job or production guarantees from American capital. Under the agreement, provincial and federal governments, for instance, are prohibited from mounting an industrial strategy which requires industrial targeting or other measures restricting or interfering with American investment rights. In the past, the federal government supported large-scale aid to textile and clothing industries which were being undermined by imports from low-wage competitors.

A similar rationale was adopted by the government to keep Massey-Ferguson and Chrysler solvent in order to protect the jobs and the companies themselves. Similarly, the government purchase of Canadair and de Havilland is another example of government intervention to maintain a highly competitive position in a strategic industry in order to develop competitive industries. In the future, Canadian governments will not be able to mount an industrial strategy that threatens foreign ownership rights.

In fact, the overall effect of the agreement dramatically reduces the role of government in planning and managing the economy. Any control that Canada introduces must not be a "disguised restriction on trade." This reduces the action that a government may take to correct a market failure, alleviate regional disparity or regulate foreign ownership.

I want to go on and mention a few other articles because I think this text is the heart of the agreement.

Article 1402 creates a new regulatory norm to regulate health and safety and consumer protection in service sectors covered by the Mulroney-Reagan trade deal. The aim of this provision is to reduce significant differences in existing regulatory standards between the two countries. Where Canadian programs and standards are different from the American ones, Ottawa has agreed that the difference be "no greater than that necessary for...health and safety, or consumer protection." The wording suggests that a minimal standard is not only permissible but preferable. In other words, tougher criteria to protect the consumer or the workplace could be considered a violation of the agreement.

Article 1605 creates far-reaching legal/political norms with respect to nationalization, misleadingly entitled "Expropriation" in the official text. For any Canadian Legislature which wants to repatriate sections of the economy now in foreign hands, this will be made very difficult. Article 1605 specifies four reasons for what they call expropriation, which we call nationalization:

- "a) for a public purpose;
- "b) in accordance with due process of law;
- "c) on a nondiscriminatory basis; and
- "d) upon full payment of prompt, adequate and effective compensation."

As the text reads, nationalization must meet all four criteria. Specifically, a violation of any one of these criteria would be grounds for dispute under the deal. Further, the criterion of "nondiscriminatory basis" will create considerable difficulties for any Canadian government that wanted to Canadianize foreign-owned sectors, such as resources. In fact, had this agreement been in force, it is doubtful whether the government of Lévesque would have had the authority to nationalize Quebec's American-owned asbestos industry. Certainly, under the terms of the free trade agreement, Trudeau's national energy program could not have happened and giving Petrocan its privileged role in the oil and gas sector would be impossible.

In regard to US business rights, the principle of removing barriers to flow of goods and services in order to ensure open and competitive trade between Canada and the United States does not interfere with American-owned companies' right to receive support from the Canadian state. This is one of the odd things I discovered in writing this paper, that the deal entrenches the right of foreign-owned companies to receive subsidies. On the contrary, the Mulroney-Reagan deal protects American businesses' right to receive subsidies for private gain. It encourages support for the private sector, in particular for American resource companies and investors.

Article 906 protects existing and future subsidies for oil and gas exploration, development and related activities to maintain the reserve base for energy articles. Article 1609 protects rights of American corporations to receive investment subsidies. All that is required is that the subsidy does not become a means for unjustifiable discrimination between investors or disguise restriction on benefits accorded the parties to the agreement.

Rights to public support are guaranteed by article 2011 on nullification and impairment. This clause--and I draw your attention to it because it is probably one of the most important clauses of the entire agreement--gives the United States the right to use the dispute mechanism if US firms are denied "reasonable benefits" due to them under the free trade agreement. It may be invoked even though the agreement has not been breached.

Given its broad scope and flexibility, it gives American firms a powerful legal and political foothold to effect a broad range of policies. Essentially, it could be used to restrict the enlargement of the public sector at the expense of the private sector. I will give you an example of this.

If the Ontario government wanted to fund nonprofit day care centres, it would be perfectly free to do this, but under the agreement, if there was an American day care enterprise operating in Canada, it could bring a trade action and sue for compensation on the ground that nonprofit day care centres

are a disguised form of discrimination; similarly in the area of health and services, services which have previously been delivered by the public sector.

If the government has taken a policy decision which in effect says it wants certain kinds of services delivered principally by the public sector, an American multinational operating in Canada could invoke this article 2011, nullification and impairment, on the grounds that this is a form of disguised discrimination, that it is entitled to a share of the funds that go to the public sector.

It is worded in a very interesting way. It says that they are being denied "reasonable benefits." This is a lawyer's paradise and a politician's nightmare.

In extending the right of business persons to move back and forth between the two countries with minimal restriction, the trade deal grants multinational business one of its longtime goals. This also has been an aspect that I think has been neglected in large measure. It lays the foundation for a common market in management personnel.

The first step towards this common market is the elimination of the labour standards test, stipulating that between two qualified candidates, a company is now required to hire the Canadian one. Under the agreement, this test is abolished. Specifically, the Canadian governments will not be able to protect jobs for its citizens. This not only facilitates intracompany transfers between branch plants and the head office, but also allows American corporations to bring technical support staff or other business people, broadly defined, into Canada on a temporary basis to work for them.

The implications here are far-reaching. American corporations may hire advertising, business consultancy, or other specialized personnel from the United States to work in Canada, without having to justify the reasons to Canadian authorities.

As well, in radically expanding the definition of a business person, over 40 different kinds of professionals will have the right to work in Canada, in the area of research and design, marketing, sales, distribution, insurers, bankers, investment brokers, computer specialists, as well as scientists, teachers and management consultants. They will be able to work in Canada on a temporary basis for up to five years. This is what the deal envisions, a temporary basis up to five years. This is the most generous reading of temporary basis imaginable.

As a consequence, Canadian governments will be left with less control on immigration, as well as the contracting out of services. Given the extent and number of these restrictions on Canadian legislative authority, as well as the asymmetrical nature of the rights and obligations imposed on Canada compared with the United States, it is conceivable that, when and if the trade pact is signed, Canadian governments will not be able to initiate major changes to legislative programs without prior consultation and, in the end, American approval. That is sort of what I am saying here today. The risk of proceeding unilaterally would be too great.

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As well, the deal opens the door to lengthy and protracted bitter constitutional challenges in which a nonelected judiciary will become the final arbiters of Canadian public policy. The recourse to the courts and to

lawyers further undermines the democratic process, because major policy questions will be viewed in the light of their legal merits rather than their intrinsic policy worth.

The legalization of the public policy process will make Canada more dependent on American judicial processes and practices and, ultimately, on the whim and mood of Congress. Not only does American business stand to profit from its enhanced access to all sectors of the Canadian market, but also in fact the deal gives the United States a large role in Canadian public policy process.

The US officials who estimate that the trade deal goes only halfway to meeting the definition of full free trade, that is, minimal federal or provincial state restrictions, have fundamentally misread the agreement's most important institutional features. Congress has been offered a large role in Canadian public policy-making federally and provincially, while Canada is given nothing of equivalent value in return. Canada has not been granted any rights to participate in the American political process.

That is really the end of the political analysis, the institutional analysis of the text. I do have some things to say about the relationship of the United States to free trade. Is it still committed to free trade or has it really moved on to quite different public policy bases? But since you have listened patiently for 15 minutes, that is enough.

Mr. Keyes: I would like to just extend my congratulations. I do not think I have ever seen a professorial paper so clearly written. Usually they are in the type of jargon people do not understand, to a large extent. I think this is an excellent one and does certainly highlight many of the concerns that have been talked about in various circles.

I am just wondering, on page 3 of the paper I noticed the statement, "Since all provinces have important regulatory power over resources, transportation, regional development, provincial practices will have to bring their policies into line with the terms of the agreement." I would assume, though, that this is still the major basis of a constitutional interpretation, is it not, and that is the area that, as a province, we have adamantly said we would not feel bound by such an agreement to co-operate in, as one of the main bases on which we hang our hat for opposing the free trade deal.

I want you to comment on that one, and then, just as one other example of a statement you made later, would you suggest that under the current budget that we are debating, which was introduced a week ago, such issues as the subsidization to industry, kind of in line with the Premier's Council on technology, the incentives being provided there to develop and provide money to business to train more people in the field of high tech, would not be allowed under the free trade agreement, and also the benefits for research and development, just to use a practical example of something we are currently debating?

Mr. Drache: Originally, the Prime Minister said that the free trade agreement would essentially respect the existing constitutional and political arrangements in Canada. I think it was thought initially that the free trade deal would simply limit itself to areas in federal jurisdiction. It is its prerogative, after all, to negotiate a free trade deal, to produce tariffs and to take other initiatives that are in areas of the Constitution granted to it.

However, it was clear also that the Americans were not interested in a

trade deal that was simply restricted to federal authority. In fact, if you look at their five objectives--the Americans had five objectives in the negotiations--the first was access to Canadian resources. The particular reason for this was that the Americans objected to the national energy program and the introduction of two-price energy pricing in Canada. What they wanted was access to Canada's resources and to ensure that the practice of the national energy policy would end.

Second, they wanted access to Canadian banks, because historically they have been restricted to the banking sector in Canada. They get this under the deal.

Third, they wanted access to the fastest growing and the most profitable side of the economy, namely services, and they got access to that in the section of the trade deal on minimal restrictions on investment.

They wanted two other things. One was a change in the auto pact; that has changed. Then there is the point I come to, the area of subsidies.

The Americans have always taken a position that they want to be able to use their own system of subsidies to increase the competitiveness of American industries, and on the other hand, to restrict their competitors' use of subsidies.

This has always been a difficult question for Canadians to grasp because the issue of subsidies in Canada is related to regional disparities and it is also related to the fact that Canada, like any other industrial country, uses subsidies as part of its industrial strategy, and a large part of the subsidies in Canada, like in the United States, are not at the federal level but are at the provincial level. In order to sell this deal to the United States, Mr. Mulroney and Mr. Reisman essentially agreed to limiting the use of subsidies, not only by the federal government, but also by provincial governments.

This deal, it seems to me, goes far beyond simply dealing with areas in the federal jurisdiction. It goes directly into provincial jurisdiction. There is a reason for this. The reason is that with 95 per cent of the cross-border trade between Canada and the United States subject to tariffs of five per cent or less--it is almost duty-free--the obstacles to trade are not tariffs. Clearly, they are nontariffs. The nontariffs that remain are important because they deal with these other areas.

Therefore, Article 103, for instance, the umbrella article, says that the federal government undertakes to force compliance of the agreement, and it is doing this under its trade and commerce power of the Constitution. I think that if it goes to the courts, the Supreme Court of Canada, which is a federally appointed body, I think will give it this authority to force compliance.

In fact, it is rewriting the face of federal-provincial relations and essentially it has put itself in the role of being the policeman to say which laws can stand and which laws cannot stand. I think there is a dangerous amount of centralization of political and economic policymaking under this deal. I think it is extremely problematic for Canada, given that there has always been a balance of power between federal and provincial jurisdictions.

The second question has to do with provincial industrial strategies. I do not want to overstate the case. Under the agreement, provinces can mount

industrial strategies, provided they in no way discriminate in favour of local or regional suppliers or industries or enterprises.

Basically, it means that you cannot develop a Canadian industrial strategy that favours Canadian-owned firms or Canadian entrepreneurs in the province. Should the provincial government, for instance, have policies that do in fact discriminate either directly or in a disguised way, it is clear that companies like American Express, American Hospital Supply or any number of American companies will use the legal avenues, which are ample and abundant in this agreement, to challenge provincial legislation.

They can do it in a way that is quite harsh. I do not know if you have discussed this. They can seek compensation if they suffer injury, or in the event that they have been hurt, the American government has the right, for instance, to countervail other industries. In trade, it is sort of an odd thing that if the trade dispute is upheld, the Americans could countervail fish industries for damages that a group of industries in the service side of the economy has suffered. So there is this problem.

I think that the deal, as I have tried to suggest in my remarks, creates this legal nightmare of uncertainty for Canadians. It is a great deal for the American multinationals and the transnationals. It gives them enormous political and legal clout to challenge federal-provincial laws and regulations in this country.

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Mr. Keyes: Just as a small follow-up, do you not see then a kind of head-on collision between what the federal government is saying it will force the provinces to comply with under free trade versus what the federal government has, in a sense, given to the provinces under the Meech Lake accord? Have you done an analysis of the contradiction in terms between the Meech Lake accord and free trade?

Mr. Drache: I have done some thinking on this and I can say what my preliminary thoughts are. I think they are both part of the same package, the same kind of major change in public policy and institutional policy in this country.

On the one hand, I think Meech Lake devolves power to the provinces. It gives the provinces a certain veto power over national legislation which they might not be in agreement with. On the other hand, this agreement tends to cede enormous amounts of power not simply to the court, but actually directly to Washington and the Congress.

For instance, for a political scientist, it is hard to see how the provinces, on the one hand, who jealously guard their powers--as they should, under our Constitution and under the British North America Act--can cheer Meech Lake, when on the other hand, they have ceded vastly more of provincial competence to the Americans, actually, and to Ottawa under the free trade deal.

Mr. Chairman: But we can do that because Meech Lake is now irrelevant. Yet Premier Bourassa does not realize that, so we are accommodating him. Is that not the case?

Mr. Keyes: Is that tongue in cheek?

Mr. Chairman: Slightly. But is it not irrelevant, if section 103 does everything you are saying it is going to do?

Mr. Drache: It might seem, on the face of it, irrelevant. My interpretation would be that there will be a constant clash, that the free trade agreement undermines Meech Lake. That is what I am saying. But I think the people who really lose are Canadians as a whole, because what the two documents do is make it very difficult to develop any kind of national policies for this country. These are two major policy initiatives which result in the further regionalization and balkanization of Canada.

What Canada needs to be competitive, what most countries need, including the United States, is national policies and a balance between national and provincial initiatives. I think it makes it very difficult for us to have any type of coherent national macropolicy. I think Meech Lake does the same thing, and I think this reinforces Meech Lake within a continental context.

Mr. Villeneuve: Professor Drache, you make a very strong point--many points. You have not touched on the auto pact. Could you possibly give us your interpretation of what is happening and what will happen to the auto pact two, three, five years down the road?

Mr. Drache: Like many parts of the free trade agreement, if you only look at the agreement to try to understand how it affects the auto pact, you will not get the whole picture. I am going to come back and say what I think the impact is, but I think the way to understand what is happening to the North American auto industry is to look at the industry and then see how the free trade agreement affects the trends that are already in existence.

I do not think I can probably tell you very much more that you do not know already, but the North American auto industry is in tremendous difficulty. I think this is the key point. The North American auto industry is in a period of enormous change and restructuring. This is because of simply overcrowding and underconsumption in the market. Many of the American observers--if you follow, for instance, the kinds of analyses that appear in the International Herald Tribune, the Wall Street Journal, the New York Times or very specialized publications of the industry itself--say possibly as many as 400,000 or 500,000 jobs are going to be phased out of this industry.

The question for us in Ontario is what share of Canadian jobs are going to be affected and what share of the new investment coming into this industry from the Japanese firms which are establishing in North America will come here. I think this is one of the questions we should be asking ourselves.

I think the reason the auto pact figures in the free trade agreement is that it addresses these concerns. I think the Americans have been very worried that Ontario or other parts of Canada would succeed in drawing new Japanese auto manufacturing plants away from the United States and into Ontario. Again, given the fact that the Americans and Japanese find Canada very advantageous with a devalued dollar, labour costs in the auto industry in Ontario are very attractive both for the Japanese and the Americans.

Given that this is a time of reorganization, what they wanted to ensure through the free trade deal was, first, that the Japanese could not be lured into Ontario. I think they have closed off this avenue by sealing off the auto pact. The second thing they wanted to ensure was that, as these new plants come onstream in the North American perspective, a large share of the new investment goes to California, New Mexico, Kentucky, etc. To ensure this, they

have changed the sourcing rule from 60 per cent Canadian sourcing to North American, which is much easier for the American auto manufacturers to source in the United States or in Mexico.

In my original paper, I have a discussion of this aspect of the free trade agreement, which appears technical but in fact is of great interest I think to Canadians and should be of great interest to legislators, to yourselves. The Americans have a customs rule which says they can set up basically in what they call Maquiladora on the Mexican side of the Mexican-Texas border. They can send their parts down to these American branch plants in Mexico. They can assemble parts and then re-export them into the United States without paying duty.

Mr. Haggerty: And into Canada.

Mr. Drache: Yes, and into Canada. That is absolutely clear. In my paper I cite a Brookings Institution study called The Global Factory. They drew my attention to this practice. There is nothing in the trade deal, for instance, that prevents this practice. Canadian parts manufacturers are going to be competing more and more with assembly operations in Mexico. What is the response of Canadian industry? Let us say you were Frank Stronach. You would go to Mexico. You do not create jobs in Canada. It is not malice on his part. This is the nature of the market. It forces you to set up your operations in low-wage havens. Mexico is the closest low-wage haven, and given the new production technologies--

Mr. Haggerty: The southern part of the United States.

Mr. Drache: Yes, and the southern part of the United States. The minimum wage laws and the right-to-work laws really create a fundamentally different cost of production. The cost of production in the southern part of the United States is strikingly different from in Canada. Canadian manufacturers simply will not be able to meet that competition. It will go to those areas.

It is a long answer, but I want to be clear on this, that I think under the free trade deal there are big changes under way in the auto industry, and that this deal does not offer us any protection. In fact, it is going to facilitate those changes and the Americans are going to benefit under the trade deal. We are simply going to be producing less automobiles and less parts in Canada.

Mr. Villeneuve: It is amazing that in our recent trip to Washington, this committee was presented a brief by one of the executives in the United Auto Workers in the US. They were, of course, against this free trade agreement. They made it very clear that the free trade agreement was overly protective of Canada and of Ontario. They had no hidden agenda. They wanted to see the free trade deal canned and then the next thing they were going after was the dismantling of the auto pact.

You are telling me the same answer, but for a totally different set of reasons. I find it somewhat ironic and strange that these dichotomies exist. It is most difficult. I guess it will go to the tribunal, which will eventually decide what is fair and what is not fair in many instances. I would like your comment on that particular end of the free trade agreement.

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Mr. Drache: On the tribunal part?

Mr. Villeneuve: Yes.

Mr. Drache: I think in Canada we fundamentally misunderstand American trade remedy legislation. I know this sounds like a bold statement, but many Canadians think that American protectionism results from politicized decision-making, and that somehow, if you have a legal dispute settlement, this is going to sort of neutralize it and make it into an objective process.

In looking and preparing and doing some of my research, I have found this is not the way the Americans view their own system, and I think we should look very closely at how they view it because I think it is an accurate portrayal. They have designed a system that is meant to be ad hoc, to respond to things as they arise and to be adaptable. It is not a rigid system; that is not the design, not the intended purpose.

What is the purpose of the American trade remedy legislation? It is a part of United States industrial policy. The United States subsidizes its industries to the tune of over \$60 billion every year. That is how they see it. That is their concept of a free enterprise economy. Subsidies play a large role in making American industry competitive. We all know the defence side, or surely we should know it by now. On the other hand, there is a vast system of subsidies that exist in the United States at the state and federal levels.

Subsidy is one thing; trade legislation is part of the same system. It is meant to harass you. If you are successful in the United States, what the American trade legislation does is allow American industries and firms to harass their competitors. That is the system. There is nothing that is going to change in that. That is the price of doing business.

Under the omnibus trade bill, what they have done is tighten those laws and they are going to make it easier for American firms and industries, which have been hard hit by competition, both from the Japanese and the Europeans but as well from the third world, to keep those products out of the American market. They have rewritten the laws.

In some other work I have done, I have written on the omnibus trade bill. I give an example. I have read parts of this 1,000-page document and they have changed their laws, for instance, so that they broaden the definition of subsidy, based on the softwood decision.

In the area of safeguard legislation--this is where American industries are in danger, but not because of subsidies or antidumping, predatory pricing and the like. They have now changed the laws to say that if American industries are in danger because they have high levels of unused capacity, suffer declining profits and have high levels of unemployment, they can petition the American government and the President for safeguard action which limits imports into the United States.

What does this tell us? This tells us two things: First, that American protectionist legislation is here to stay and this is the wrong forum. You cannot get at American protectionist legislation through any type of disputes panel that is contained in this agreement. I also have some arguments saying that there is no change in the status quo in terms of what is contained in the

agreement, but let me take my second point, which I think is the more important one.

You have the omnibus trade bill, which is a sign the United States has abandoned the free trade ideal. It believes in managed trade. That is what the omnibus trade bill is doing. The Americans are saying to the world: "We do not believe in open markets. Regardless of the cost or regardless of what other countries may do, unfettered free trade is not for us." That is what they are saying. They are saying they reserve the right, when their industries are in danger and there are no jobs for their workers to go to, to take action to protect their commercial interests.

I put it to you that I think the deal at this level is utterly stupid, that while the Americans are moving to managed trade, we are moving to unfettered free trade, and of course, they have an enormous advantage over us. It increases the disparity of power between the two countries.

The United States is moving to take control of its trade and the harmful effects. They want these powers because in a global economy which is unpredictable and highly volatile, countries need to manage their trade. Canada is going in the opposite direction. I must say that Canada is the only country in the industrialized world that is going backward. Every other country is going forwards.

Mr. Chairman: Unless something happens with the Premier's Council report.

Mr. Villeneuve: We heard the exact opposite in many, many instances, and of course it is a matter of opinion. I certainly respect yours and I thank you.

Mr. Chairman: It is interesting that the labour representative who spoke to us in Washington did indicate that there was great fear that the auto industry is going to lose jobs through the agreement. That was not well known on Capitol Hill. One other commentator actually thought the reason for the AFL-CIO's opposition was merely brotherhood with the Canadian unions, but that certainly was not what we heard when we actually talked to them.

Mr. Villeneuve: If they are brothers, they do not like one another.

Mr. Neumann: You mentioned the impact on the ability of our national government to develop national policies. Looking at Canadian history, we had a national policy in the 19th century that, through creation of tariffs, developed a system of east-west trade and an east-west infrastructure of transportation, communications and so on. With the combination of things that have happened, with the development of interprovincial trade barriers, which are not affected by this agreement, and the enhancement of our north-south trade, what do you think are the long-range implications for the political system of the changing trade patterns that will emerge over the next couple of decades?

Mr. Drache: First, from my perspective at least, I think we should be clear about interprovincial barriers to trade. For reasons that have escaped me, Canadians make a lot out of this. In fact, when a major study was done by the Ontario Economic Council three or four years ago by--the name escapes me--it found that they were absolutely minuscule in the whole scheme

of things. Something like 0.5 per cent of goods that are traded are subject to interprovincial barriers, so it is absolutely minuscule.

There are, of course, in the United States and Canada states or provinces that suffer from regional disparities and other kinds of problems. It does make some sense, for instance, if you are in Newfoundland with unemployment of 25 per cent, that when there are jobs available, Newfoundlanders should be given first crack at them. I myself find that this is quite legitimate. If that provincial government is attempting to deal with local problems, it has to, I think, impose certain restrictions on companies.

I think one has to make some distinction between those types of provincial restrictions and, on the other hand, restrictions that might seem to be based on beggar-thy-neighbour policies; but most of them, I must say, are not nefarious and are not whimsical or arbitrary. Some we do not like to live with, but I think on the whole they are not that dangerous.

I want to address the larger question about trade. I think there is a fallacy in the agreement that there is a causal relationship between tariffs and markets: that is, if tariffs go down, markets increase. It is a very sort of mechanical view of the world. For instance, if you look at Canadian exports to the United States in 1963 and Canadian exports in 1983, Canada was a much more significant exporter to the United States in 1963 with higher tariffs than it is today with lower tariffs. We supplied a larger percentage of the American market 25 years ago than we do today, so the relationship between tariffs and trade is not clear.

I think what is significant is whether, from a policy perspective, trade should be allowed to dictate the social and economic criteria for all other policies. I think one of the dangers in this agreement and one of the dangers that is taking place is the belief that trade policy should be this determining criterion, that everything else should conform to trade. I think this is a very dangerous thing and I think it is dangerous for a number of reasons, because trade often is a very short-term commercial perspective reducing everything to "economics is life, life is economics." I think this is a false way to look at the world and I think there are many other criteria.

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Second, in many parts of Canada, because of the cyclical nature of our trade system based on the export of staples and of resources, you need many built-in stabilizers in the Canadian economy. This deal makes it very difficult to have these built-in stabilizers, so that while Mulroney and other politicians might talk of the need--that this is in the national interest, this will create national unity--in fact, a trade-oriented economy in Canada is one that is based on these boom-bust cycles. So it is very likely, in my judgement at least, that this type of trade deal is going to lead to more regionalization, more regional cleavages rather than fewer.

So from my viewpoint, this deal is a regionalizing policy within a continental context. It will weaken the relationships within Canada. Let us agree that there are injustices within Canada on the distribution of the benefits. I think this deal will do nothing to lead to a redistribution or re-equilibrium of our regional problem. In fact, it should lead to an aggravation, because all provinces will be in a race to sell their resources into the American market at the lowest price possible. Therefore, concerns

such as ecological, environmental, health, labour and consumer protection concerns will all be given a rather low priority.

Mr. Neumann: I have a second question. It is my impression that we, as Canadians, gave up a major bargaining chip in the continental energy section of the agreement. First of all, what did we get in exchange for that? Do you think it was worth it? And would we perhaps have been better off, if we were going to trade it off, to trade it off for, say, clear controls on acid rain, something environmental rather than what we got? Did we get something worth while for trading off that section?

Mr. Drache: I am asked this in different forums: "What did Canada get? Drache, say something positive." I say that the positive thing out of this deal is that it encourages Canadian entrepreneurs to sell their companies. This is the only thing that I can see as a positive gain out of this deal.

Second, concerning the idea that energy should ever be a bargaining chip, that you make a deal in this way, I do not think that would ever be a satisfactory trade, and I will say why. If you look at the energy provisions of this document--

Mr. Neumann: But it was used that way in the document: as a bargaining chip.

Mr. Drache: To get what?

Mr. Neumann: I do not know. I am asking you, what did we get out of it?

Mr. Drache: Nothing. You see, my viewpoint of the bargaining process is that I start from the sort of fundamental assumption that you have asymmetrical relations between Canada and the United States, and so in a negotiating situation it is Canada that is making the concessions. The Americans never wanted this agreement. They never said: "We want this agreement. This is a great thing." They said, "If you want the agreement, sell it to us." So what happened for two years is that Reisman and Murphy met together, and Reisman would say, "OK, this is what we are prepared to offer you." Murphy said, as far as I can see: "This is great, Simon, but it is not enough. The Congress is in a protectionist mood. Sell us the deal."

I have to say that there is an incredible naïveté on the part of many Canadians. The Americans are our allies, which is true, but that does not mean they are going to sit at negotiations as equals. They are the dominant power in the relationship. If they wanted the deal, they might have said, "Yes, we will make concessions"; but since they did not want the deal and since it is virtually the status quo in many areas, it is not a big thing for them.

It is not a big thing for them, and on the energy I have to say that, you know, everything has context. What is the context? There were three disputes between Canada and the United States in the late seventies and eighties. One was on the Foreign Investment Review Act, and they were very angry on the Foreign Investment Review Agency, even though they have their own FIRA.

Stephen Clarkson, in his book Canada and the Reagan Challenge, lists five pages of American restrictions on foreign investment in the area of energy. They were angry on this and they wanted to ensure that the Americans'

multinationals were able to invest and divest in Canada without restriction on the energy, as well as that no Canadian government would be able to impose export taxes or other duties in such way as to create a two-price system and energy.

They got that. There was no bargaining chip. Acid rain is not the bargaining chip; that is just straight negotiations. And they have got this access to the service sector. That is the nature of the negotiations. I think if you negotiated with the Americans when they were not hot for you, and even if they were hot for you, you would be in deep trouble, because they would also extract a great deal.

So on this notion that we are buddies and stuff like that, I think businessmen would just laugh at this type of approach to conducting government relations between two countries.

Mr. Mackenzie: You are correct on the fact that they did not promote the deal. I did not hear it once on our last trip down to Washington. We just heard from the Americans basically how good a deal it was for both of us. But on the earlier trips we took, on a couple of occasions some of the American elected officials whom we talked to went out of their way to point out that we had asked for the free trade agreement, not they. On that, you are accurate.

I guess my question, though, is on the energy deal. Do you know of any other issue that is as much of a threat to any nation's sovereignty as, in effect, to lose control of its own supply and pricing policy when it comes to energy? I think few of the sections in the agreement bother me more than the energy agreement. I see the ramifications from it as probably the biggest single threat to our sovereignty. I wonder if you have any comments on that.

Mr. Drache: My own view is that the energy deal symbolizes for Canadians the massive concessions and the loss of control of our resources that have occurred as a result of this deal, but in my remarks today I have tried to say that that is part of the package; it is part of this concept of national treatment. I think the attack on the legislative authority of the government of Ontario and of all provincial governments as well as the federal legislature is certainly equally far-reaching.

For instance, imagine if the Ontario government wanted to nationalize hydro and half the companies were American owned; or if you wanted to create auto insurance. I am not saying you should do it, but if you decide one day in your wisdom that you want to do that, is it feasible any more under the agreement? Under the agreement, the Americans have created a legal norm that says they have a right to be consulted every time you take an action. That is very far-reaching.

I notice that the Minister of Health (Mrs. Caplan), three days after the Morgentaler decision, said that she had received applications from two American abortion clinics to operate in Ontario. She said she had rejected them, but there are no grounds for this under this deal. The Ontario government does not have the right to reject them if they meet the criteria. They have as much right to be here as Morgentaler. I think this is an enormous change in legislative authority. I admit to you this is more abstract. It is a more complex thing, but I think we can grasp that.

For instance, in the area of blood banks, many of you know that a prime source of acquired immune deficiency syndrome in the United States was through the fact that over half of the American blood used in hospitals comes from

private blood banks. I saw a program several years ago where the Americans were warned of AIDS in 1981 and the American private industry refused to adopt adequate screening of blood for two years. Eighty thousand people were infected by blood they received in hospitals.

Mr. Haggerty: Was it 20/20?

Mr. Drache: Yes. It is an astounding story.

I had my students do some research in this area. This is a principal concern for government officials and for people charged with the health program in Canada. Does this mean that American blood banks can now operate in Canada? On what grounds can you keep them out?

This agreement goes far beyond energy. It touches every aspect of federal and provincial government. I am not saying this in an alarmist way; I am saying this is what national treatment is.

If you look at the United Nations Conference on Trade and Development and some of the United Nations organizations, many countries are opposed to national treatment, because they are forced to cede such a large degree of authority and control of their economy and their legislative process to the transnationals and the multinationals. That is why the Americans find it such hard going in the world. India, Brazil, Argentina, Mexico, France--none of these countries are prepared to cede so much ground in the name of trade.

I agree that this deal is very difficult to understand. It is a long text, a complex, dense text, but I think it goes to the heart of many things in this country and will have very profound implications if it comes into being.

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Mr. Haggerty: Just following up on some of the questions raised, I was talking to my colleague Ken here and I said, "Gee, the foundations in Kingston would be almost rocking down there if Sir John A. Macdonald was around today." If you drew a parallel between Mulroney and Sir John A. Macdonald, you would never have a giveaway of Canada like we are having today, if you are looking at Conservative viewpoints.

I think you mentioned in your brief this morning the area of native rights. That is something that has never been discussed in any detail. Do you have any further comments to add to this? We know of the situation in Alberta where the Indians at one time were given certain larger tracts of land and now it has been taken away from them, now some other foreign industry or firm has come in with the agreement of Alberta, saying "This is what we're going to do." What about some of the lands in the Northwest Territories that may well still be owned by Indians?

Mr. Drache: I must say, while I have been asked many questions, this is really outside my competence. I cannot really answer that.

Mr. Haggerty: Getting back to the area of energy, as has been mentioned by my colleague, hydroelectric energy is controlled by a private corporation within the government structure of the province. I interpret from your comments today that if we wanted to build a hydraulic plant, we would have to get approval from the Americans before we could, for example, renovate a plant to bring it up to date, say, in the Niagara River.

Mr. Drache: No. For instance, if you wanted to introduce an auto insurance plan or a film distribution plan, if you wanted to make major changes which would seriously affect American commercial interests, under the agreement, we have the obligation to consult with the United States. In other words, if a government was to introduce a provincial day care plan, it would have an obligation to consult. Where American interests are directly affected and there were large American interests operating in this area of the economy, then we would have to consult and get their approval. They might say, "Don't do this."

There might be a change in hydroelectric regulation, that we want to sell less than what is in an agreement. Can the Ontario Legislature decide in its wisdom to change its mind on something, to build fewer nuclear power stations or to lower rates? This might run into trouble with the American authorities. You have to consult with them.

It is important to understand that this is a text, that this is a legal document and it binds governments. It binds them in major policy areas that impede with the Americans to go and consult with them. So it ties your hands.

Mr. Haggerty: Talking about hydroelectricity, looking at the Great Lakes basin, some previous witnesses here have said they can almost dictate to us what we should be doing in the energy field. Electricity is in that area. It means they may come in and say, "We have complete control of the Great Lakes basin." You cannot even put up a plant on the other side because of environmental issues or something they may consider. It seems we are tying ourselves right to the American economy.

If I could sum up your discussion this morning, you are not opposed to free trade, but you want a fair trade deal, not given to one particular country that can be overbearing in some cases based upon its omnibus trade bill.

Mr. Drache: I think this is a fair summary of my concerns, although I have to say that I find that to try to hang everything on this idea of free trade as some sort of sacred policy idea seems to me, without meaning to be smart-ass, sort of like believing in a first-year economic textbook. Does the world really run like this?

In the last 30 years, much of the prosperity has not been based on free trade but due to the fact that, through collective bargaining, there has been upward pressure on wages, which has led to high levels of demand in all western economies; and there is this link between mass consumption and mass production, which has been the source of much economic growth. At the same time, trade liberalization has been helpful, particularly at a time when tariffs were very high.

But this is 1988. We are talking about 25 years to 30 years ago, when tariffs were important. What are we talking about today? We have had almost 40 years of trade liberalization. Tariffs are at their lowest ever, and they are going to go lower, except for the industries where there are no jobs to go to.

What is happening in the world? What is happening in the world is that countries manage their trade: such as Japan, such as Sweden, such as Italy. They manage it because where you have to have economic restructuring, you cannot leave it to the market. Companies are incapable of doing this. You have to do it, basically, through a social and political process in which capital, labour and the state get together and try to restructure their economies to

deal with the costs of adjustment. If you do not accept the fact that there are costs of adjustment, you will not have trade liberalization. That is the problem.

Part of the reason there is so much protectionism in the United States is that the United States is such a primitive, backward country politically. Rather than have some sort of coherent policy when American industries are in decline, they sort of leave this to interest group lobbying. It is incredibly crude. I mean, look at all of western Europe. There is no country in the world that is as backward in the public policy area as the United States. Why do we want to go this route? It is totally beyond me.

Even for entrepreneurs--and I speak to business people--I have to say that once you get beyond the Tom d'Aquinos and the John Crispos--

Interjection.

Mr. Chairman: You are a refreshing counterbalance.

Mr. Drache: I will refine that. I have debated him three times.

Interjection: It is not worth it.

Mr. Drache: It is not worth it. He just lies, right? Crispo just lies. I have to say that you can debate with people who have a difference with you, but if he says the trade deal does not create a continental energy policy, he lies. That just absolutely is an untruth.

Let me just finish. On this point, if you get to the sectorial level, even business people are very nervous about the deal, because 80 per cent of Canadian manufacturers do not export; they sell in the local market. Under this trade deal, they are going to face a wave of cheap imports into Canada, and there is going to be job loss and plant closures. The reason is that so much of the economy is dominated by the branch plants, which are profitable. They are not efficient. Why confuse profitability and efficiency?

It is a great deal to have a branch plant in Canada. It involves a small amount of investment. American multinationals do very well on this, but they are not set up to be efficient, innovative competitors. That is the problem. It is very hurtful to the branch plants in Canada and to business people associated with them. They know this very well, and the problem is that our business culture is this culture of silence. You do not stand up and criticize if you are a small manufacturer, Robert MacIntosh, who is the head of the Canadian Bankers' Association, or d'Aquino, or Falconbridge, or Eaton's or whatever. In fact, there is very mitigated support for this deal.

Mr. Haggerty: I left off with a fair deal. Now, I am going to throw another one in.

Mr. Drache: No. I am saying do not take the idea of a fair deal. The principle from a policy point of view is to manage your trade in your national interest. That is the key. To face the demands of the global economy, that has to be the policy. You follow trade liberalization and you encourage liberalization in areas where you are strong. You do what every other country does. Areas of your economy that are weak have to be restructured. Remember, a large part of your economy is traded domestically. It is not geared to international competition. It just is not. That is the nature of the world.

Mr. Haggerty: Looking at another summary of your discussions,

following your comments, I would take a look at it and say that the present Mulroney policy on free trade with the United States really permits the United States an economic takeover of Canada. Would you agree with that?

Mr. Drache: I think it certainly accelerates the amount of foreign investment in Canada. That is really the heart of this deal. It is a deal about giving rights to American capital to come and go as it pleases. That is the notion of national treatment, national presence.

I think what we are likely to see, particularly in the financial sector--in manufacturing, the Americans have a big position already, so it is really in the financial sector that Canadians are going to lose control over investment and accumulation. That is, it seemed to me, the heart of this. I think it is not by chance that the lobby group which heads the support in the United States for free trade is American Express. Maybe they want the Toronto Dominion Bank. They are very aggressive.

I think what you will see is that the banking sector and the service sector will be at the front line of this deal. That is where you are going to see the big inroads. Sectors that have been historically Canadian will become foreign controlled.

Mr. Mackenzie: I do not want to interrupt but I think there is going to be a vote in the House. It is very close--

Mr. Chairman: That being the case, thank you very much. You captured our attention. You are a refreshing counterbalance to Professor Crispo.

Mr. Drache: Do not say that.

Mr. Chairman: I would not even put you in the same category as him. I should not have said that. But we do appreciate it. I appreciate your addressing a lot of areas that are getting rather vague public attention but not specific attention, particularly article 103. Thank you.

Mr. Drache: OK. Thanks for having me.

Mr. Chairman: Next week, we will be in room 151, so wear your best Colgate smiles.

Mr. Mackenzie: Mr. Chairman, I want to make a motion that you might try to use your influence to find out what in blazes they are doing in terms of the members' expense cheques for that trip to Washington.

Mr. Pelissero: I second it.

Mr. Chairman: All right, members' expense cheques. I can indicate to you that I received a phone call on Thursday questioning something I had in mine, so I presume they are working on them.

Mr. Mackenzie: They have now issued us a cheque for three days' per diem only, which--

Mr. Chairman: Yes, but apparently the first day, Sunday, your payment is identical whether it is travelling or working. While we did both, they have apparently opted to pay it as a travelling day and that cheque is still in preparation.

Mr. Morin-Strom: Why have other committees been paid a while ago? For the committee I was on that adjoined that trip, I got paid two weeks ago.

Mr. Chairman: Well, that would just put us one week late. Mr. Carrozza tells me he got--

Mr. Morin-Strom: More than a week late, because we only got half a cheque, less than half a cheque.

Mr. Chairman: Yes, but the year ended March 31. Mr. Carrozza says he got our material in that day. You will recall we got back from Washington the day before. I can give you no other explanation, except to say that I know in my own case they were working on it last week.

The committee adjourned at 11:54 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, ~~MAY~~ 5, 1988

May



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Witnesses:

From the Economic Council of Canada:

Maxwell, Judith, Chairman

Jenness, Robert A., Senior Policy Adviser

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, May 5, 1988

The committee met at 10:05 a.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: I see a quorum. My name is David Cooke and I am the chairman of the committee. This committee has been looking very intensively at the agreement on free trade between Canada and the United States for some time, perhaps more intensively than any other legislative committee, federal, provincial or state on either side of the border.

We are very happy to have with us today representatives of the Economic Council of Canada: Judith Maxwell, chairman, and Robert Jenness, senior policy adviser.

Members of the committee, you are aware, I am sure, that you have in front of you a document entitled Venturing Forth. You also have a summary of this document done by Anne Anderson, but I would actually recommend—and I know we have a lot of paper we have to deal with—that you read this document very carefully. It is not long; it is well written and succinct. It has very good figures in it with regard to percentages and so on of trade, which I think are extremely up to date, and it has some very interesting conclusions.

The council has also recently released this document, Managing Adjustment: Policies for Trade-Sensitive Industries, and a much thicker document, Open Borders, an assessment of the agreement in some detail.

Without further ado, I would like to welcome you, Ms. Maxwell. I understand this is the first time you have appeared before a committee of the Ontario Legislature.

ECONOMIC COUNCIL OF CANADA

Ms. Maxwell: It is my first time, Mr. Chairman, although my predecessor, David Slater, has met with various committees here at Queen's Park in the past, and I am very pleased that you invited us to participate today. I would agree that, in fact, this committee has put more effort and time into listening to views on the Canada-US trade agreement and I am glad that the council has a chance to add its five cents worth to those discussions.

You are probably familiar with the council, but perhaps I could start by making a short description of what the council does. We are a federally funded think tank with a mission to do economic research on topics of national and regional importance that affect the medium-term performance of the Canadian economy.

We also have a consensus function in the sense that we have 25 council members who represent all regions of the country and all sectors of the economy, and they debate and review the results of the research done by the staff. It is those council members who sign the reports and are responsible for the advice that goes forward to government.

The council has been active in the area of commercial policy or trade policy for a long time. The first major piece that it published in this area was in 1975, a document called Looking Outward, which made a very strong recommendation that Canada should go the direction of trade liberalization, both multilateral and bilateral, although it expressed at that time a preference for the multilateral but pointed out that both would be favourable for Canada.

The council's long-term commitment to trade liberalization stems from the fact that trade liberalization is a route to a healthier economy. In a sense, it is like taking up jogging or going on a diet. What you are really interested in is a happier—no, not happier, sorry—a longer, more active life, a more productive economy, if you want to translate it into economic terms. That is really what we are discussing here, whether or not this is the appropriate policy to facilitate the gearing up of the Canadian economy for the international competition that we face.

The council recognizes that many Canadians have reservations about a bilateral trade agreement. Clearly one of the concerns, one of the things that is on their minds, is that a trade agreement of this sort would put Canadians at a serious disadvantage because they do not have the capacity to compete in a more open trading relationship. The concern is that jobs will be lost and that we will end up a poorer country.

What our work at the economic council shows is that there is not a question of raising unemployment as a result of trade liberalization, that in fact there is clear evidence there will be more job gains than losses, although there certainly will be a considerable amount of job change during the transition period.

In addressing the trade policy question, the council has made an effort to look at the global context, to look at the broad challenges the Canadian economy faces in the next few decades and then tried to assess what role trade policy could play in that kind of situation. Looking at the Canada-US trade agreement, the council is really concerned with how you get there from here. Supposing the agreement is implemented, what challenges would we face as we adapted to the agreement?

I am pleased to say that as a result of the research we have done at the council, there are quite a number of provincial and federal government agencies which are using this basic information as their benchmark to assess where the adjustment problems are likely to occur.

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I would also like to bring to your attention this morning that there are some important parallels between this work of the council and the recent report that was published by the Premier's Council here in Ontario. We start from the same sense of the context, if you compare the two reports, which were actually released in the same week in April. There is a clear sense of global integration, a sense of shifting comparative advantage and a strong message in the Premier's Council report that the Canadian market is too small for the industries that we want to see grow and prosper in the next decade.

The Premier's Council and the Economic Council of Canada also argue for similar responses, looking at it in the generic sense. Both of them focus on the need to restructure our industry to move in the direction of higher value added, and the need for strong pressure to increase productivity and to reach out for new opportunities in export markets.

The Premier's Council report does not deal with trade policy in the same way that the council does. There is a lot of policy analysis in there focusing on tax, on science and technology, on training and on institutional arrangements, but it is basically silent on the pros and cons of trade liberalization. What our report does focus on is this issue of trade policy.

In the context of restructuring, we see the trade agreement as a kind of carrot and stick together. The carrot is there in the sense that there will be new market opportunities, both in the Canadian market and externally, that give growth opportunities. But at the same time there is a stick in the sense that there will be increased competition, and that will force ahead the restructuring that is being demanded of us at any rate, regardless of the trade agreement, by the global economy.

Perhaps the key difference here is that the trade agreement provides a somewhat more predictable environment in the sense that we know that tariff barriers and nontariff barriers will be moving in the following direction according to the following schedule. It provides a planning environment for corporate decisions and, in that sense, it has to be compared with what would exist without a trade agreement where there would unquestionably be stresses from international competition, but where the stresses would come from would tend to be less predictable. We are comparing with a somewhat bumpier environment in the absence of a trade agreement.

You encouraged me, Mr. Chairman, to provide an overview of the results of our work, and I would like to turn to that now. If we could dim the lights, please, we have a couple of slides we would like to show you that give you an overview of the report.

In the statement put together by council members, we start with the section that gives the global context of Canada's trading environment. We have a section then that deals with the compatibility of the Canada-US trade agreement with the General Agreement on Tariffs and Trade and its connections with the multilateral trade negotiations that are under way in Geneva at the moment. There is a section on sectoral analysis looking at agriculture, energy and other key sectors affected by the trade agreement. Then there are the results of our simulations and, finally, a concluding section where we deal also with the reservations expressed by Canadians about the agreement.

The next slide will show you a broad overview of the main results, looking at the Canadian economy in total. The interesting thing about this slide is that all of the indicators tend to move in the most desirable direction in the sense that total output in the economy is higher by about 2.5 per cent. The consumer price index is lower than it would be in our base case by almost six per cent. Productivity is higher than it would be in the base case. Investment is considerably higher, five per cent higher, than it would otherwise be. Unemployment falls by just under one percentage point. Employment grows by almost two percentage points.

Mr. Pelissero: Why did you use 1981?

Ms. Maxwell: That is just the measure of inflation. It is the base year for the price index that was used to deflate, in other words, to convert this information to real dollars, to volume, rather than putting it in nominal terms.

Mr. Mackenzie: What assumptions allowed you to come up with this chart?

Ms. Maxwell: I will come to the assumptions in a few moments. They come from the council, and the assumptions are based on considerable in-depth work we have done in order to make sure that we had a proper understanding of the existing state of the economy and the way in which firms and individuals are likely to respond to the agreement.

This is our base case or our most likely simulation. I will show you the sensitivity to different assumptions in a moment. But what we assumed here was that all the tariff and nontariff barriers that are mentioned in the agreement would be removed. I should say all the ones that we are able to measure. There are some aspects that we cannot measure. We also allowed for a modest gain in productivity as manufacturers responded to the changes in their costs and the opening up of new markets to them.

Mr. Mackenzie: I ask that only because, as I am sure members are aware, in testimony before this committee both economists and manufacturers have given us almost diametrically opposed views, based on, in many cases, supposedly the same assumptions.

Mr. Chairman: I think Ms. Maxwell probably explained this a little further. There are some aspects that have not been factored in, as I understand it.

Ms. Maxwell: Yes. The productivity assumption is the one that is subject to most debate among economists, but the assumption here with respect to productivity is based on a serious analysis that we have done of the 20 sectors in manufacturing. We have looked at the growth in productivity in the past. We have looked, in each industry, at the proportion of plants that are efficient and those that are less efficient and we have made assumptions that the less efficient firms will move basically half way towards being as efficient as the most efficient plants in their industry.

When we allow for this, and this is the assumption that is in here, we are assuming that over the 10-year period the rate of growth in productivity in the manufacturing sector will be half a percentage point more per year than it has been in the past. The average in the past has been three per cent per year. We have raised it here to 3.6 per cent per year. There have been individual years where we have reached rates of growth in productivity of that order in the past, so we are not talking about an assumption that takes us outside the range of behaviour that we have seen in the past.

Mr. Mackenzie: Except that there is an element of the leap of faith in that as well, because if it is reversed or if the half of the economists who have argued otherwise before this committee are right, then your figures are going to be skewered pretty effectively.

Ms. Maxwell: We will come back to that in some of the future slides. Let me go on now.

Members are probably aware that the council published last August a set of simulations which showed the potential effect of a trade agreement between Canada and the United States. The numbers that were published in the most likely case in that report were somewhat higher than the ones we produced in April. The main reason for this was that we had made some assumptions about what would be in the trade agreement that turned out to be inappropriate, in the sense that there is much less opening up of procurement in the two countries than we had assumed and fewer nontariff barriers are removed.

Whether you think that is a good thing or a bad thing depends almost on

what sector you are in, because there was a lot of pressure on both governments to leave some of those nontariff barriers in place because they were benefiting particular industries within the countries.

There also are important differences between this agreement and the one we used hypothetically in August that have to do with the improvement in the security of access. That is something that we cannot model, so we have not been able to take account of those net gains, if you want, in the work that we have been doing here.

You can see that, overall, the difference in procurement and in nontariff barriers leads to a fairly significant reduction in our estimate of the impact of the agreement. But the point I want to make here is that, in the council's view, the gains certainly remain on the positive side, and we would characterize all of the numbers that we are presenting to you as being modest but positive.

I think that we have to emphasize that is the view of the council.

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The most important objective in this exercise is the restructuring that takes place, that gives you a healthier manufacturing sector, a healthier economy in the longer term.

Mr. Pelissero: Can you leave that slide for a second? You identify fewer nontariff barriers being removed. I thought the whole exercise of the free trade agreement was to talk about tariff barriers only. The second time you mentioned that. In your introductory remarks you talked about the gradual reduction of tariff and non tariff barriers. What elements of the agreement refer specifically to nontariff barriers?

Ms. Maxwell: The nontariff barriers would include such things as the way the United States has used various inspection and quality standards as the way of preventing goods from having free access to the US market. Nontariff barriers are basically regulatory restrictions that exist in either country, that limit the flow of goods and services across the border.

Mr. Pelissero: Right.

Ms. Maxwell: The nontariff barriers were very much on the table. Another example of a nontariff barrier that was not removed was the interprovincial barriers on movement of beer across borders. But the council's estimate is that approximately a quarter of the nontariff barriers that we had measured were removed in this agreement. So, in fact, there still remain a great number of nontariff barriers between the two countries.

Mr. Pelissero: As you say, one of the reasons you identified, in fact, the 100,000 job difference was that fewer nontariff barriers were removed than the initial draft agreement originally thought.

Ms. Maxwell: Yes.

Mr. Pelissero: OK.

Ms. Maxwell: OK. Sorry, no, than the hypothetical agreement that we modelled last year before we knew what the specific terms of the agreement would be, that is what this comparison—

Mr. Pelissero: OK, so that was modelled in August.

Ms. Maxwell: In August, before we—

Mr. Pelissero: Before even

Mr. Chairman: I think, in theory, it is a zero. Both countries had nontariff barriers last April.

Mr. Pelissero: Oh, I am not arguing that point. I am just saying that—OK, well, we will leave it there.

Ms. Maxwell: OK. Let me turn to the next slide now, which responds more directly, I think, to Mr. Mackenzie's question about what would happen to these figures if you used different assumptions.

In the report you will find, on table 18, there is spelled out the details of the number of different possible scenarios. What we show here is what I call the upside risks and the downside risks. It can get very technical to run through all the details of the different items on the slide. Perhaps I will let you ask questions where you wish, but I would just like to point out that, if we were to allow for a surge in investment, for example, triggered by the fact that Canadian producers decide they really want to gear up substantially for this market, or if we assumed, for example, that there were some energy megaprojects that came into play in the 1990s, we would get far stronger economic growth than I showed you in the earlier slide, where we had estimated two and a half per cent growth in output in the Canadian economy.

This would add—the kind of extra investment scenario that we show in the document would add almost another percentage point to the growth rate, and add a considerable amount of employment, as well.

If there is a boost to productivity in the service sector, which we have not postulated in our most likely case, you would also get a substantial boost to economic growth. Third, we know that the US economy will grow somewhat faster as a result of the implementation of this agreement, but we have not taken that into account in the simulations that we have done.

Mr. Mackenzie: Excuse me, Mr. Chairman. Should that not be taken into account? Would that not, for example, relate to the fact that if we are gung-ho and go after a penetration in the US market and the investment that is necessary there, it is a considerable cost to our manufacturers. From what has been happening in some of the plant closing situations we have had in this country, we already know there is a substantial excess capacity in many of the US firms.

So they can access this market at far less capital cost. If anything gives us problems down the road, we can end up carrying a heck of a lot larger load of debt than some of the American companies are going to carry.

Ms. Maxwell: I think you will find that there are various levels of excess capacity on either side of the border. The point that I am postulating here is that we have allowed for only very modest investment, in the most likely case that I presented to you earlier.

But, if we see a surge in investment related either to manufacturing or to energy, then it is much more positive for the Canadian economy, both in the direct and the indirect sense. An important assumption that we made was

revenue neutrality. We assumed that the loss in tariff revenue to the federal government would be replaced through increases in the personal income tax revenue.

That, in a sense, is a constraining effect, and probably knocks half a percentage point of growth off our estimate. If we had assumed that the loss of tariff revenue could simply be absorbed into the federal government, then growth would be higher.

Now, the downside risks are also important. We estimated the effect of a sustained and substantial appreciation of the exchange rate over the 10-year period and found that it would reduce growth by almost half a percentage point. There are two other items there on the negative side. One is the terms of trade loss, which has to do with changes in relative prices of exports and imports. The other is the possibility of slower and incomplete pass-through of tariff reductions and productivity gains to consumers.

Our model allows for fairly considerable lags in the pass-through of those benefits to consumers, but you could argue that there is a downside risk if, in fact, that pass-through is slower than what we have postulated.

I think the important thing to bear in mind here is that what an econometric model can offer you in this kind of dialogue is a sense of the direction and the relative magnitude of the impacts on the economy and that, while we can see reasons for upside potential, we can see possibilities of downside adjustments to our most likely case. You can see that the numbers that we have chosen to present as our most likely case, can certainly be considered to be a sound benchmark and within the range of reason.

The further information that I want to show you, in terms of provincial and industrial impacts, is based on that most likely case which I would say to you can be accepted as a sound benchmark of the relative range of impact.

We will go on then to the next slide, which shows you the impact on employment by province or by region. We have picked a slide that shows all the provinces, so that you can see how they are distributed across the country. If you look at the bottom line which shows the per cent change over the base case—we are talking about 1998 now—you can see that the average increase in employment would be 1.8 per cent for the country as a whole and that within individual regions, the high is two per cent for the Prairies and the low is 1.7 per cent for Ontario, so there is very even distribution across the country.

The reason the distribution is so even is that it is basically the consumer who is the winner from a trade agreement. It is the consumer who benefits from lower-cost imports and from improvements in productivity. As the consumer has more real income to spend, the benefits get dispersed through the economy, according to the way the consumer spends. So you can see, because consumers spend a majority of their budget on services, you see that the majority of these impacts show up in terms of increased employment in the service sector. That is true across all provinces.

In Ontario, for example, 80 per cent of the job gains are in the service sector, where you see a gain there of about 74,000 jobs. There are, however, significant gains in employment, and this is net gains in employment, netting out job gains against job losses—there are gains in construction, in manufacturing and in the primary sector.

Mr. Chairman: Would we be able to have copies of these?

Ms. Maxwell: Certainly, you could have copies of those and I would refer you, on that particular slide, to table 4 in the report.

Mr. Chairman: Oh, OK. If they are in here, that is fine. I just was looking for them.

Ms. Maxwell: It is on page 24, the slide basically highlights figures that are in the report.

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Mr. Mackenzie: Mr. Chairman, I am wondering if our witness could go back for just a moment to the potential effect in terms of revenue loss and what would happen if we saw an increase in personal taxes to make up, I guess, for what the government is losing from the tariffs. Has that been factored into the increased spending power that people will have as well?

Ms. Maxwell: Yes, indeed it has.

Mr. Mackenzie: Why would you say that the increase would be in personal tax and not in corporate taxes, the duty the importers have been paying previously? It seems that all of our taxes tend to go more to the personal and we have seen nothing that has been a substantial increase in terms of corporate taxes.

Ms. Maxwell: First of all, we would not recommend that the government necessarily do this, but we were trying to isolate, if you want, the pure effect of the trade agreement and not have it mixed in with a fiscal effect because of, in effect, lower taxes by the government. We chose to find the extra revenue from personal income tax only because we wanted to find a very broad tax base which would do the least to distort the results that we were going to get out of the simulations.

Let me go on now, then, to show you the impacts by sector. I know that is a matter of considerable interest to this committee, given the wide variety of witnesses you have heard in recent months. What we are doing on this slide is comparing simulation 2, the base case or the most likely case which I described to you earlier, with simulation 1. Simulation 1 is basically almost a theoretical exercise that we did. What we did was say, OK, we will drop the tariffs, we will drop the nontariff barriers and we will not allow any of the manufacturing firms to react to that. We will just force them to digest it and see what happens. So we forced them to hold the same behaviour as they had prior to the agreement.

When we did that, we found that 16 of the 20 manufacturing industries and one other industry, communications, which is not included in manufacturing, showed negative output and employment effects after the 10 years of the agreement. So that is 17 out of the 36 sectors that we were analysing in this particular chart. These details are presented in table 2, which is page 22 of the council's statement.

The important thing is that when we then move from simulation 1 to simulation 2 and allow firms, those small inefficient plants that I described to you earlier as being the source of the productivity problems, to make a modest adjustment in their efficiency, then we find that only seven industries experience a decline in output and employment. We are looking there at the

first column of data. You will see at the bottom the ones that are showing negatives. Electrical products, which is an industry that has been under stress from international competition for some time and has been going through a rationalization process, rubber and plastic products and textiles are the ones where you see the biggest impacts.

But you can see that those modest changes in productivity that we have assumed reduce the negative impact very considerably in those seven industries and move the other 10 from the negative column to the positive column. You can see at the bottom of that table the difference: both the positive industries and the negative industries are summed up independently, and then the net figure is given at the very bottom.

Mr. Mackenzie: This is after 10 years. This is the projection. Can you tell me whether or not that same projection takes into account the fact that one of the undecided issues in the agreement is subsidies, which can certainly be included in the class of nontariff barriers and which are in many cases not going to be decided for five to seven years? How do you know what the effects would be if, for example, we lose some of those battles over what are or are not subsidies?

Ms. Maxwell: This is based on the assumption that there are no new major countervailing duty cases that affect these industries.

Mr. Mackenzie: Yes, but we will not know that until we have decided what are, in many cases, subsidies.

Mr. Chairman: Is it based also on an assumption that we are not really going to change our agreement in that five-to-seven-year period; in other words, that it will come to a draw? I think that is what Mr. Mackenzie is asking. There is a presumption in the agreement that there are going to be some changes in subsidy laws on both sides of the border in that period.

Mr. Mackenzie: Certainly our right to intervene as a government, and in a number of programs, has been raised with us in our discussions with the Americans, as well. Those are issues which are not decided, so I just wonder how we can get a 10-year projection when there may be some major battles involved over what are or are not subsidies and therefore may or may not be part of a nontariff barrier approach.

Ms. Maxwell: I guess the way I would answer that is to point out that without a trade agreement there would be X, Y and Z types of countervailing duty cases between Canada and the United States. Possibly, with a trade agreement, there will be X and Y types of cases or there may be A, B, C types of cases; I am not sure how different they would be. I think the important question you are raising there is whether we have made any gains in the way disputes will be settled between the two countries as a result of the trade agreement.

The council has dealt with that issue in a separate part of the report, but it is not something we can factor into these simulations. I think if you bear in mind that we are comparing a world without a trade agreement to a world with a trade agreement and we are trying to simply isolate the effect of the agreement, that—

Mr. Mackenzie: Or grant that it is a world we know as against a world we do not, where the rules may be a lot more rigid, in many cases.

Ms. Maxwell: I think we should have a discussion on that perhaps when we finish the numbers.

Mr. Chairman: Perhaps we can let Ms. Maxwell finish. I do not think she suggested ever that this is perfect.

Ms. Maxwell: That is right.

Mr. Mackenzie: I just wanted to be sure. But any changes that might result as a result of those arguments are not factored into this particular chart?

Ms. Maxwell: That is right, either in the base case or in the simulations themselves. Let me go on, then—

Mr. Haggerty: Just on that point: I was looking at page 25 of your report —

Mr. Chairman: Perhaps we could let Ms. Maxwell finish. Then I will take a list and we can ask questions; you will be at the top of the list.

Mr. Haggerty: I thought it was open there, with everybody asking questions.

Mr. Chairman: I had been letting it open, but I think we are interrupting the flow of her presentation.

Mr. Haggerty: OK then, as long as I am on the list.

Ms. Maxwell: I just have two more slides. I will be finished very quickly.

We have described to you an environment in which there is a lot of change going on in the economy, and this obviously raises concerns about employment and hardships that individuals will face as they move from one job to another. I think the important point to bear in mind is that in our estimates, we believe that for every person who is forced to change jobs as a result of the kinds of restructuring we are talking about here, 2.3 jobs are created.

So we are talking about an environment quite unlike, say, the recession of 1982, where there was a very severe array of layoffs here in Ontario, when people were being forced to change jobs and moving into a labour market where very few new jobs were being created. That is when you get upward pressures on the unemployment rate. In this environment, where you are talking about a stimulus to overall growth in the economy at the same time that restructuring is taking place, you have a much more positive climate for people who are changing jobs.

In Managing Adjustment, the report you mentioned earlier, Mr. Chairman, that we released in March, we did some fairly careful analysis of the amount of mobility of workers in the manufacturing sector and found that the average annual permanent layoff rate in manufacturing is around eight per cent of the workers in that sector. The kinds of job change we are talking about in these simulations would add less than one per cent to that annual volume of permanent layoffs.

But a very strong message from the work the council has done on

adjustment policy and on technology is that when you are actually there in the marketplace, you really cannot distinguish the effects of a trade agreement from the effects of new technologies or the effects of international competition, new competitors from across the Pacific, and so on.

For that reason, the council has been quite strong in saying to governments that it does not make sense to try to do adjustment policies to help workers, or firms if they wish to do that, only for people who are worried about the trade agreement. These policies should be generic or general so that you are not discriminating in favour of a particular group of workers whose lives have been altered by trade, when they will have neighbours whose lives are affected by technology or for another reason.

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Although the general message of our work on adjustment is that we have an economy where workers are quite mobile, there is no question that there are particular groups in the economy who are more vulnerable. They tend to be older workers, people in small remote communities where there are only one or two employers, and therefore there is not a great variety of job opportunities to move on to, and also, in our technology work, we identified the fact that people with low education are particularly vulnerable.

The thrust of the advice from the council is that adjustment policies of governments should focus on the needs of individuals. The focus should be on people rather than firms. The help should be particularly directed to older workers, to training, to help people develop the skills they need in order to change jobs and also to focus on the concerns of communities where there is now an industrial base. The council is actually doing a project on the question of community development and we will be issuing a report on that later this year.

Let me go on now to summarize the overview. First of all, there are many aspects of the trade agreement that in the council's view provide more secure access for Canadians to the US market. Examples would be in agriculture, in energy, in the temporary access role for sales and service personnel, which is particularly important to small business, and to the sideswipe provision and so on.

The agreement, as it is drafted, appears to us to be not only compatible with the General Agreement on Tariffs and Trade, but really gives Canada a leg up or a substantial step forward in its dealing in the Uruguay round. I would be happy to talk about that in more detail later on if you wish.

I have described to you already the fact that there are positive economic effects on the economy through the transition period.

Finally, the council is very impressed by evidence that business is ready to gear up, that it is prepared to undertake this restructuring in order to take advantage of the deal. With those four considerations in mind, the council has basically given its support to the implementation of the Canada-US trade agreement.

Thank you, Mr. Chairman. I am certainly ready for questions.

Mr. Chairman: Thank you, but before I go to questions, your

endorsement was also based on positive reaction to the omnibus trade bill in so far as Canada was concerned, was it not?

Ms. Maxwell: The endorsement is qualified in the sense that the council says that if the omnibus trade bill is passed and it proves to be particularly damaging to Canada's interest, then we feel that we should withdraw from the bilateral trade agreement.

Mr. Chairman: Do you have any comments on the bill that was passed in the House of Representatives and presumably will be passed in the Senate?

Ms. Maxwell: I do have some comments, but I must confess to you that we have not analysed the 1,000 or 1,200 pages that are in that bill. Clearly, the bill has been softened in recent months. We do not know yet whether there will be a presidential veto. If there is, it does not appear there will be enough votes in the Senate to override the bill. I think we would still say there is a less than 50 per cent probability that the bill will pass, but there are still certainly some clauses in that bill which should be of great concern to Canadians and will require very careful analysis if indeed it is passed by the Congress.

Mr. Chairman: Thank you. I have questions from Mr. Haggerty, Mr. Morin-Strom, Mr. Kozyra, Mr. Pelissero and Mr. Ferraro.

Mr. Haggerty: On page 25 of your report, I am having difficulties, looking at the paragraph that begins, "Job turnover rates...." It goes on to say: "Our calculations suggest that the estimated net gain of 251,000 jobs results from about 439,000 jobs being created and 188,000 jobs being destroyed over the 10-year span." In that 439,000 jobs we are looking at, I am looking at it as an ageing population. More of our working population will be retiring in that 10-year period, so we are going to find some job replacement, new jobs. How many are really related to the free trade agreement?

Ms. Maxwell: The net figure that is related to the trade agreement is the 250,000. If you look on the next page, page 26, you will see the estimates we made about jobs created and jobs lost. What we know from analytical work that has been done at the council and also at the Department of Employment and Immigration, for every change in the total workforce in a particular plant or office, you will have quite a flow of people in and out. What we have done is that for each industry we have estimated what the typical flows in and out are, turnover rates if you want, and we have tried to take our net figures and blow them up to the gross.

You are quite right to point out that there are retirements that take place. There are people who decide to go back to school and there are people who simply find another job that they like better and they move on to another. We have tried to factor them in in table 6.

Mr. Haggerty: There is an article in the Toronto Star on April 14, 1988, headed "Free Trade Job Forecast Scaled Down" and "Council Report Lowers Number by 100,000." From that document written in the newspaper, compared to page 25, the numbers do not seem to come forward. Are they correct? Are they close as possible?

Ms. Maxwell: Yes, they are.

Mr. Haggerty: You are only estimating these in the first place. You are not sure.

Ms. Maxwell: We are estimating them within a particular set of assumptions. You may recall that early on in the slide presentation, I showed you a comparison of the simulations we did on a hypothetical agreement last August and then the simulations we published in April. If you compare August with April, August being before we knew what was exactly going to be in the trade agreement, that is where the change of 100,000 takes place that is noted in that Toronto Star article.

Mr. Haggerty: So you are taking the best of the scenarios you put through the computer. What is the worst?

Ms. Maxwell: The worst is with no trade agreement, where you have a net decline in employment.

Mr. Haggerty: Based upon what, though? How do you arrive at that? If I look at the free trade proposal and the figures you put in, particularly in the resource sector, and that takes in agriculture, you have a downward trend in employment. Those are the key to the foundation, you might say, of all employment in Canada because what you are saying in here is that there is a switch from jobs in the staple industries to jobs in the service sector. In other words, we are going to be with the lowest paying jobs out of this free trade agreement, if I look at the numbers you presented to us today, because it is in the service sector where you are talking about the jobs that are going to be increased. That is a pretty broad area.

Ms. Maxwell: It is a very broad area. I think you are quite right to point to the change in the structure of employment in the overall economy, which is an ongoing trend. Quite frankly, we were not able to do for this study a good analysis of the quality of the jobs that are being affected here. We have another project going on where we are looking at that very closely.

The service sector jobs are very diverse. There are some parts of the service sector, such as retail trade, for example, where average wages are quite low, but there are other parts of the service sector, like business services, transportation, communications and so on, which tend to be the ones where employment is growing quite quickly, where average wages are actually higher than they are in the manufacturing sector.

We are not in a position to generalize yet. I hope I could come back to you in another year and tell you more, exactly, about this quality of employment question.

Mr. Haggerty: But meanwhile, all this information is being documented. It goes to the newspapers and leaves the impression that this thing is a great way to go. I have not gone into it in detail, but you are only assuming this is the way it should go. I think one could say there are advantages in free trade with any country.

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I notice you have very few comments about the Uruguay round of the General Agreement on Tariffs and Trade that is coming up very shortly and the rules that are going to apply, particularly to the area of subsidies. I do not

think there has been a group that has come before this committee that has talked about the round table discussions that will take place there.

One of my main concerns is that Canada will not even be represented at the GATT treaty negotiations in Uruguay because we bargained that right away, with the United States doing all the negotiating for us. We have problems right now in the wine sector and the grape-growing industry in Ontario, and we do not have anybody who is representing Canada to express our views and concerns in this area. We have had some rules applied now from the GATT group in Europe and they are not to our liking, you might say, in Ontario.

Mr. Chairman: Your concern is about the negotiating agreement stance we have to take at the GATT?

Mr. Haggerty: We do not take any stand at the GATT.

Mr. Chairman: We are going to have to. We will be subjected to certain rules by the free trade agreement.

Mr. Haggerty: Yes, but the United States is going to do the negotiating for us. The point I am trying to drive home is that here we have already given up some of our rights to say what we think is in the best interests of Canadians. The harmonization, for example: We will not even be able to come and raise taxes any more in Ontario, because they will be dictating to us in this area.

Mr. Villeneuve: You have looked after that already.

Ms. Maxwell: The council would take quite a different view on the way the bilateral trade agreement interacts with the multilateral negotiations.

Mr. Haggerty: That is right.

Ms. Maxwell: Our understanding of the way multilateral negotiations have worked in the past is that Canada has spent the majority of its time negotiating with the United States, with its largest trading partner, and then -

Mr. Haggerty: We have done very well in that area.

Ms. Maxwell: —in the last-minute rounds, if you want, has had direct discussions with other trading partners such as Japan or France or the European Community or whatever. Now we are going into this Uruguay round with the Canada-US discussions basically behind us. We are in a position now to start to deal directly with each of our other trading partners. The council would hope that many of the provisions that have been agreed upon in the bilateral agreement would now be extended to other trading partners, if they are prepared to make concessions to Canada.

Mr. Haggerty: Not to Canada, to the United States, and that is what the United States is using us for. They will be badgering there saying: "Now we've got an agreement between the United States and Canada. Our next one is Mexico." They have been trying to get it there. Really, when you look at it, they want control of everything throughout the world. If we cannot see that, I think we are all blind, but that is what it is heading for. One country is going to dictate. I just feel that Canadians have been sold out in this deal.

Ms. Maxwell: This is not a customs union. You do not have a common

external tariff with the United States. This is a free trade agreement where each country is free to pursue its own trade arrangements with third parties.

Mr. Jenness: I can assure you, Mr. Haggerty, that there is a quite sizeable bureaucracy in Ottawa that will be doing the negotiations in the Uruguay round with other countries. We are not, under any circumstances, bound by US negotiations. We have our own negotiating team and we will be negotiating on all the items at the GATT.

Mr. Haggerty: All right; that is your opinion. But I express my opinion and I think I read it in a different manner and with different signals.

Mr. Chairman: I am not sure this is getting us anywhere in so far as finding out the views of the council on their actual presentation is concerned. Do you have any other questions, Mr. Haggerty?

Mr. Haggerty: No.

Mr. Villeneuve: Thank you for a very good presentation, Ms. Maxwell. You did not specifically touch on the auto industry, the auto pact and that particular area, which is a very important economic area to Ontario. Could you give us your thoughts on the auto pact as it is now, its vulnerability, and as it will be under the free trade agreement?

Ms. Maxwell: Well, as you know, there were some disagreements between Canada and the United States about the auto pact that have emerged over recent years. Certainly, our feeling was that certain aspects of Canada's policies, particularly the duty remission policy we had, were quite vulnerable to a challenge from the US, either from the government or from firms that were affected by it.

We have looked quite carefully at the impact of the new provisions on the auto pact and have come to the conclusion that for the majority of the industry, there will not be significant impacts. There will be small negative impacts on some small parts makers and potentially on plants that are assembling trucks. But for the bulk of both the assembly and the parts industry, the future patterns of production, employment, exports, imports and so on are going to be determined on the basis of the economics of production, which in turn is affected by the cost structure here in Canada vis-à-vis that in the US, and increasingly to developments, as you know, in Japan, South Korea and others of that sort. It is also very much affected by relative exchange rates among those three countries.

In the simulations we made, we did not make any major adjustments to the parameters for the auto sector, on the grounds that it was not going to be the changes introduced in the trade agreement that were going to be made or break for this industry, but changes in the economics of production in Canada and the US.

Mr. Villeneuve: So the council's opinion would be that this is a stabilizing agreement for the auto industry, as opposed to what some people would like us to believe, a dismantling of the auto pact.

Ms. Maxwell: I think that is a fair estimate of what we are saying. We are saying that we have managed to get rid of some irritants that could have been potentially damaging to Canada, although we cannot estimate what the impacts would have been. That is very speculative. But we feel that the provisions as they exist now, the safeguards as they exist now, will retain

basic protection for activity to take place here in Canada that is of value for Canada. Bob, would you like to make a further comment?..

Mr. Jenness: I think the general concern of most observers of the industry has to do with its present and future overcapacity. That is a factor that is independent on our calculations from the effect of the free trade agreement per se. In other words, we see the agreement generally as you have described it, as a stabilizing factor, but we share the views of others that the automobile industry in both Canada and the US is probably facing some critical times in the next four or five years ahead.

Mr. Villeneuve: I do not think there is any doubt about that. During the recent trip to Washington that this committee was on, the American auto manufacturers suggested that they do not like the free trade agreement at all because of its protection of the auto pact which they feel is slanted very much towards Canada. The reason they object to free trade, and it is not a hidden agenda, is that they want to dismantle the auto pact, pure and simple.

Mr. Morin-Strom: Ms. Maxwell, I would like to ask you about a comment by someone who appears to be the only independent lawyer who sits on the Economic Council of Canada. It is included at the back of your report.

Raymond Koskie says: "The publication of the council's report"—this report—"Venturing Forth: An Evaluation of the Canada-US Trade Agreement, is politically charged, and in my view, inappropriate. The council was established as an independent economic advisory body. Its mandate is to provide advice that may be useful in shaping future economic policy. It was not created to enter political controversies over policies already adopted by a government.

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"The council has now entered the political debate about the trade deal already agreed to by the government. Any semblance of political impartiality is now gone. The endorsement of the government's trade deal leaves Canadians without an economic counsellor that is above the partisan fray."

Can you tell us who funds the council and how the members of the council are picked?

Ms. Maxwell: The council's base budget is from the federal government of Canada. Occasionally it will have references from provincial governments as well. The council members are appointed by the Prime Minister for a three-year term, which is renewable for a second three-year term. I guess those were the two questions you asked me.

May I go on to say that I do not agree with Mr. Koskie's assessment that this is a partisan document. I think it is important to recognize that the council first issued a report favouring trade liberalization in 1975; that it has done further work that is directly relevant to the Canada-US trade agreement in recent years, in 1986 and in 1987; that the council had developed a methodology over that period which allowed it to make in-depth assessment of a Canada-US trade agreement; and that we felt, having done earlier analysis based on a hypothetical agreement, we had a responsibility to go back into the public domain with an assessment of the actual agreement, because this is one of the few sources Canadians have of this kind of in-depth analysis.

Mr. Morin-Strom: So, in effect, the council is the Prime Minister's

body. I notice it has 23 members. It certainly does not seem to be widely representative of interests in Canada. Almost all are representatives of business. There is only one, it would appear—a lawyer with an independent law firm—who is independent from businesses. There are three representatives who are university professors, and there is one, Kalmen Kaplansky, who is formally involved with the International Labour Organization in Ottawa, who appears to be the only labour representative.

Out of those five who are not business employees, three have written dissents at the back to the council's report. I have read from Mr. Koskie's report. I will read from the report by Diane Bellemare, a professor at the University of Quebec at Montreal, and Kalmen Kaplansky, who say:

"We do not share the optimistic and confident tone of the council's statement, which, despite the fact that Canada has given up more in the area of tariff barriers than it has gained in terms of nontariff barriers, expresses full support for the free trade agreement. There are many individuals and groups who oppose this agreement. Their reasons for doing so cannot all be wrong. The concerns that have been expressed deserve, in our opinion, more careful consideration than the council has given them."

They go on at the end to say:

"Finally, we disagree with the argument advanced once again in this document that the free trade agreement is the key to revitalizing the Canadian economy and that because it places Canadian businesses in a more competitive environment, it can only be beneficial to society as a whole. Even if the abolition of tariffs proves to be beneficial for certain companies in certain industries, we do not believe the free trade agreement should be seen as a national blueprint for revitalizing the Canadian economy. It cannot take the place of a national strategy designed to encourage optimum utilization of our human resources. The role of freer trade should be to complement such a strategy in order to promote a better standard of living for all those willing to work."

Certainly this agreement goes far beyond a trade agreement. This is an agreement that is very much political in nature, and the council, in terms of its majority opinion, has taken one side of the political argument. Why have you not taken a more balanced approach?

Ms. Maxwell: I think if you read the document, you will find that it is quite objective in its analysis of the agreement. It points to its strengths and its weaknesses.

I think what Madam Bellemare and Mr. Kaplansky are saying here is that they do not see a trade agreement on its own as being the solution to the restructuring needs of the Canadian economy, that it must be complemented by the national strategy on human resources or national labour, an active labour market policy. There are important themes of that basic hypothesis that are in the main body of the report. These two people are reinforcing their point in a comment.

I think what we have on the council is a representation of Canadian opinion. We quite recognize that there are people who have strong reservations about the trade agreement and others who are in favour. The council, in a sense, is a microcosm of those viewpoints, and that is reflected in this

report. We have not in any way tried to hide or squelch the independent views of certain council members.

I think we recognize that there are people who will disagree with the overall analysis, but I think those who do disagree must do so with the understanding that the economic analysis basically shows modest but positive effects on the Canadian economy.

Mr. Morin-Strom: Finally, in terms of whether this is, in fact, a fair assessment, the third comment here by lawyer Raymond Koskie questions very seriously the optimistic scenario you have used in terms of even your economic analysis. He goes on at page 34 and says:

"The council is simply playing a game with the Canadian public. It is not demonstrating—but rather is assuming—that lower prices and increased productivity will result from the FTA. Naturally, having assumed that the FTA would bring about lower prices and higher manufacturing productivity, the council concludes that it would also create additional employment and higher growth. Once again, the council has made assumptions about the FTA's impact on manufacturing productivity that Canadians logically and reasonably are entitled to expect it to prove. This, it has failed to do.

"Remarkably, however, even these optimistic assumptions project relatively little employment creation."

Farther on he says, "More seriously, the council's optimistic assumptions ignore the substantial risks of this FTA," and he goes on at length on them.

In your presentation to us, if I had not brought forward the objections of some of your own council members who are not in the business community, you have not, to this point, brought forward the fact that most of the representatives who are not business people on your council in fact disagree with your assessment of this agreement.

Ms. Maxwell: According to the practices that we follow in the Economic Council of Canada, it is the responsibility of the chairman to represent the consensus view of the council in a forum such as this. The dissents and comments are in the public domain; they are not hidden in any way, and I am quite happy to discuss any of the points that have been raised in the dissent of Mr. Koskie if you wish to do so.

I particularly, for example, would point out to you that we are not assuming lower prices. We are assuming increased productivity, but—

Mr. Morin-Strom: That is a pretty big assumption to assume increased productivity when the historical evidence, as is brought out here, has shown there has not been a significant increase in Canadian productivity relative to the United States. Sure, there may be productivity increases in both countries, but unless it is relative to the United States, your assumption washes out.

Ms. Maxwell: I am sorry, that is not correct, and I would like to deal with that question on productivity from two points of view.

First of all, the increase in productivity, whether or not it closes the gap with the United States, brings the kinds of benefits that we have shown in the charts you were looking at earlier, and I have described to you already

the careful analysis that we went through before we made those assumptions on productivity. They are not numbers that have been plucked out of the air; they are numbers that are firmly based on good economic analysis.

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I can also show you a chart. Unfortunately, the screen has been taken down, but perhaps, Mr. Jenness, you could hold up the productivity slide. There is absolutely no reason to say it is impossible to close the productivity gap. That gap has been closed and opening several times in the past two decades. If you look here at the slide being held up by Mr. Jenness, you will see that the Canadian productivity in manufacturing in 1965 was about 75 per cent of the level of the United States. We closed the gap between 1965 and 1970 by 10 percentage points, tracked the US performance for the next 10 years and then have fallen seriously behind in the 1980s. There is no reason that the gap could not close again because of strong performance on the part of Canadian manufacturers.

I repeat, the kinds of effects from greater productivity that are shown in this statement by the council do not depend on closing the gap, which is basically measuring the difference in speed between two cars going along the highway. What we are saying is that if the Canadian car speeds up you get the benefits from higher productivity, the consumer gets the benefit and we are a more competitive country.

Mr. Morin-Strom: But productivity improvements are going on all the time and there are lots of different ways of stimulating productivity improvements. There is a serious question if we have to go into this free trade agreement in order to stimulate the kinds of productivity improvements we want to see in our manufacturing sector. Surely there are other industrial strategies that can be taken by a government. Are you not making an awfully big assumption by saying this agreement alone is what is going to generate it?

Ms. Maxwell: That is not what the council is saying. The council is assessing this agreement and saying what would flow from it. We are not saying it is the only option. However, I would point out to you, first, that the change in productivity assumed here is very modest. I described earlier that it raises the annual average rate of change in manufacturing productivity from three per cent per year to 3.6 per cent per year, not at all out of the range of possibility.

I must say governments have had a lot of difficulty prodding the private sector to produce those kinds of productivity gains. What is, I think, important to recognize in the trade agreement is that it provides the carrot and the stick. The carrot is that there are market opportunities; there is a stronger growing domestic demand and there is access to the US market which has not existed before. The stick is that there will be more competition, there will be more pressure on firms to produce those productivity gains. Canadians in general are the gainers as a result of the productivity gains.

Mr. Chairman: You were drawn to Mr. Koskie's views, Mr. Morin-Strom, because he is a lawyer.

Mr. Morin-Strom: Because he is not working for a major business, one of the few straws I have to grasp at in this agreement.

Mr. Kozyra: It is generally assumed and often stated by supporters of the agreement that Ontario will be a winner. That has been used as a

statement of criticism against the Premier's position: "Why are you so opposed if Ontario is going to be a winner?" Your statistics do not seem to bear that out. If I am interpreting them correctly, it shows that overall economic growth in Canada is at 2.5 per cent and Ontario 2.3 per cent, lower than the national average. Can you comment on why that is so and why Ontario is not the big winner? Is anyone in Canada in fact a big winner, and if not, why go into it in the first place?

Ms. Maxwell: I think as far as the regional distribution is concerned, I would put more emphasis on how evenly the impacts are distributed across provinces rather than try to single out one particular province as the big winner or the big loser. In fact, the differences in terms of percentage change are rather small.

I think you can clearly see, if you recall this slide I showed earlier, that the bulk of the new jobs, a very high proportion of the new jobs, actually do occur in Ontario, because it is the biggest of the provincial economies.

The benefits of the trade agreement in the long run for Canadians will be measured by the fact that we have a healthier economy, particularly a healthier manufacturing sector, a manufacturing sector that can face import competition domestically, can defend its share of the US market and, in doing so, can demonstrate that it can compete not only with US producers but with producers from Japan, South Korea and Europe who are also players in the US market.

It is not by any means a panacea, it is not a cure for all Canada's problems, but it is putting in place the kind of framework that gives our industry, which then has to respond by making the necessary adjustments, the opportunity to be more successful.

Mr. Kozyra: That leads into my second question. You mentioned compatibility with the General Agreement on Tariffs and Trade giving us a leg up in that total picture. When we were in Washington, one of the senators happened to say that if this agreement works out well, the US may try that with other countries: Mexico, Japan and so on. I got the impression that that would then be a kind of second alliance with the States, an economic alliance, perhaps to counter some of what they were perceiving as negative effects of GATT. Is that the kind of leg up we would be getting? I would like you to explain the compatibility with GATT and the leg up that we might get from it.

Ms. Maxwell: Let me just talk about the compatibility first. When we look at the basic definitions that are included in the trade agreement, the kinds of institutional arrangements that have been put in place, like the dispute settlement mechanism and so on, those things are all based on GATT principles. Indeed, during the period when they are negotiating subsidies, the two countries have agreed to follow the GATT subsidies code, which has the basic concepts and principles on which the laws of both countries are already founded.

Also, in certain areas that are very high on the agenda of the Uruguay Round, such as services, investment, intellectual property and so on, the two countries have now gone through a learning process and have managed to actually come to some agreement on some of the issues. Agriculture would be another one, I think. There is now a foundation of intellectual capital, if you want, that is being used in the Uruguay Round. Whether it ends up being the model for that round we will have to wait and see. Certainly there has

been a tremendous interest on the part of other countries to look at what these two countries have been able to agree upon, to use it as grist for their mill, if I can put it that way.

I guess the bottom line is that there is nothing in the agreement that we have been able to identify that contravenes the spirit of the GATT. There are a number of steps forward that the two parties have been able to agree on that provide a foundation that will help the multilateral process along.

Then there is the third point, which I raised earlier with Mr. Haggerty, that Canada and the US have now sorted out a great many of the most severe issues they had to deal with on a bilateral basis, which means that both countries can now focus their attention on other trading partners in the remaining years of this round.

In some issues they will make common cause, I expect—possibly on agriculture; I am not sure. Certainly there are a number of issues that are of great concern to both countries. There is certainly now the opportunity for Canada to point to particular achievements in this agreement and encourage its other trading partners to offer concessions to Canada in return for access to the same concessions that have been agreed to in the Canada-US context.

Mr. Pelissero: First of all, I think at the outset of your presentation you talked about the Economic Council of Canada's support of trade liberalization. I think it is important to say that, as a trading province, we do not have any problem with those goals and objectives. But, based upon the analysis that has been presented both to the Premier (Mr. Peterson) and to this committee, based on what we have seen to date, the free trade agreement does not achieve that.

Let me even be a little more specific. I feel that we gave up far more than we got on the other hand. You refer to the carrot and the stick. My riding is Lincoln. I have anywhere from a third to half of the grape growers and probably two or three of the wineries. They are certainly feeling the stick end of the deal, not the carrot end of the deal.

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In your assessment, the two booklets that you put out, you talked about some of the perceived benefits to agriculture in terms of the supply-managed commodities. I do not see any mention of the wine industry. Do you have any comments?

Ms. Maxwell: I would begin by saying that we recognize that there are special stresses on the wine industry that flow as much from the GATT decision and Canada's response to the GATT decision as they do from the Canada-US trade agreement.

I would also make the comment that in all the industries we studied, we found that there were strong firms and weak firms, and we are not talking about a complete wipe-out of even an industry that is as highly stressed as the wine industry. There will be particular wineries that have a niche in the market, and some of them—a few of them, I realize, not the majority—have been quite explicit about welcoming the opportunities that will flow from this agreement.

I think there are particular challenges to governments in terms of helping industries that have adopted a particular structure as a result of

regulations of either provincial or federal government, helping them to make an adjustment to the terms of this agreement. Whether those adjustments should be what the economists would call exit subsidies, or assistance in exiting from the industry or assistance in finding a niche or solving the problem while staying in the same industry, is something that has to worked out on a very detailed basis, taking account of the particular situation of the industry in question.

Mr. Pelissero: I have a short response and then another question. In my mind, the GATT decision is a direct correlation with respect to the free trade agreement. In other words, yes, the GATT decision was on the back burner and was being considered, but within less than a week of the free trade agreement's coming out, we had the GATT decision coming forward with the Europeans' perception that the Americans had gained something that they did not have. In terms of the GATT decision, we have responded to it as a province and as a country, and there are, I think, some discussions that will have to continue in terms of who is responsible for what and at what level and the amount of aid that should be available. That leads me to the next question.

We have heard some discussion in terms of the adjustment programs. Which viewpoint does the economic council take? Does it take the viewpoint put forward in some cases by Michael Wilson that says there are adequate structures in place to deal with the adjustment, or the viewpoint of some—I think it was even the finance committee—who are saying we are going to have to look at special adjustment cases, whether it is the wine industry or other sectors that have not been identified yet? Where does the economic council stand on that?

Ms. Maxwell: The basic view of the council, looking in a very broad overview, is that adjustment policies should be focused on people and not on firms. Our basic concern has to be to help people to have the training and the sort of personal resources at their disposal. Whether their job is changing and they stay within the same firm or whether they have to change from one firm to another, they need support in making those adjustments.

The work that we have done at the council on various types of efforts that governments have made to try to help firms adjust to competition—and that is what the Managing Adjustment report is about—shows that when governments start subsidizing plants in order to help them to modernize, there is very little payoff in the broad social sense; that is, the subsidy ends up being just a substitute for the firm's own funds. There is not much incremental investment that flows from those subsidies.

Instead of paying the money in that direction, we would rather see the resources of the state directed towards training programs, income support for older workers who cannot make the adjustments and, potentially, support for communities as well. That is the basic thrust of the council's prescription.

Mr. Pelissero: What else should we be doing? Let us assume a scenario where the free trade agreement goes through. What else should we be doing as a country to meet world competition. By your own admission—I may be paraphrasing a bit—the trade effects are indistinguishable from the technology or the trade agreement. So while recognizing that even by your own admission either increased productivity, by whatever means, or technology is not the panacea, what else should we be doing?

Ms. Maxwell: I will refrain from giving you the whole speech but I think we have to push ahead with the adoption of the new technology. We have

to make sure that our workers are equipped with the best possible software and hardware. Put it that way. There is much that governments can do in order to support the restructuring and the outreach efforts of Canadian industries.

There is also a great deal that needs to be done within the workplace, through much stronger and more constructive relationships between management and its workers. A very clear message from the work we have done on technology is that it is not just a question of bringing in the fancy machinery and plunking it in the same workplace; you have to rethink job design and job content. There has to be a very major investment on the part of management in the retraining of those workers and helping them to make the best use of the equipment.

I will see if I have some more things on my checklist here. I think the important change in Canada over the last decade has been the recognition of the importance of that global marketplace. When the council published its study Looking Outward in 1975, the business community was very strongly opposed to what we were recommending in terms of trade liberalization. Now we find quite a different atmosphere. Firms realize that they have to get ready for that marketplace.

Part of it is what you do in the plant in terms of improving your productivity. Part of it is in the basic strategy of the firm with respect to marketing and which product lines are going to be produced and which markets are going to be served. There is certainly a lot of upgrading for Canada to do there.

Mr. Chairman: You recommended taxation changes as well?

Ms. Maxwell: Yes, we did, in fact. The council issued a major report on taxation about 15 months ago called Road Map for Tax Reform. There we advocated the removal of a lot of the tax preferences in the system which we feel really distort investment decisions because people tend to invest where there is a tax shelter rather than where there is true economic profit, if you want, to be earned. Therefore, we recommended a move in the direction of a more neutral tax system.

Mr. Chairman: Is your prediction for benefits based on these adjustments occurring in the labour market, in the approach to work and taxation, etc.? You are talking about fairly major changes in Canadian industry.

Ms. Maxwell: It is predicated, in the most likely case, on really what I would call incremental modest adjustments in the way firms prepare themselves for the marketplace. But we would argue that there is a lot of upside potential on that. The more aggressive firms are in getting themselves ready for that marketplace, then the bigger the longer-term benefits are to the country as a whole.

Mr. Chairman: But you are asking for a lot of government intervention in the adjustment process, which I do not see happening at the moment. Does that concern you?

Ms. Maxwell: What we are saying to governments is they really have to look at what we are getting from our training programs. We are also saying to industry that industry should be investing far more in training on the job. In fact, one of the big gaps at the moment is that employers do not view training as an investment; they view it as a cost. We have to think of our

people, of our human resources as our primary advantage and we have to make those investments if we are going to be successful in the longer term.

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Mr. Ferraro: First, I apologize for being a little tardy. I was here for most of it and I would like to ask a few questions. Forgive me if I am being repetitive.

The first question I would like to ask is not directly related, but I do not get this opportunity very often so I will take the liberty. Carrying along on lines of discussion that my colleague Mr. Morin-Strom indicated about the perception and the credibility vis-à-vis dissent, in the way the system works now for the economic council, might I ask you, has the economic council itself ever dealt with this issue to the degree, for example, that you might want to say, "Look, even though the reality is significantly different from the perception," which I think some people would certainly agree with, "would it not make more sense for the economic council to be appointed by an all-party committee?" Or is that a concern to the economic council?

The reality is that if the Ontario government asks a law firm to give an opinion on something, the perception by many could be: "Well, what the hell did you expect? It's the Liberal government that's calling the shots."

Ms. Maxwell: I think the way to answer your question is that the council's independence is reflected in the fact that the council sets its own agenda and it does not suffer from any intervention along the way in terms of what it writes in recommendations.

When I first joined the council two and a half years ago, the council membership was somewhat different and quite a number of the council members had been appointed by the previous government, but I could not identify around the table differences in viewpoint based on the nature of the government that had appointed those council members. When they come to the council table, they are responsible for their own views. Their views are very strongly influenced by where they live and what their personal and professional experience has been, and they work out those issues in a very strong dialogue.

Mr. Ferraro: I respect what you are saying and believe what you are saying. Still, getting back to the idea of the perception, I do not know whether you would agree, but if you did have a nonpartisan nominating committee or an all-party nominating committee, it has to then preclude any suggestion whatsoever. To me, if you are the Economic Council of Canada, it would add significantly more credibility in some circles. I do not know if you would agree with that.

Ms. Maxwell: It would certainly have countered some of the questions that were raised by Mr. Morin-Strom earlier.

Mr. Ferraro: I just point that out.

Having said that, and to carry on to some degree, you have come up with an opinion that secure access is better. Reports by our government by independent—notwithstanding the perception—legal opinion, as you very well know, indicate the opposite; that, indeed, we have no more secure access today than we did the day before we started negotiations. In my opinion and in the opinion of many, to some degree that is a valid argument. The reality may be that we are going to have to wait, assuming this free trade agreement is implemented and, historically, judgement would be made.

My question along that line still is: Assuming the FTA is implemented, we have to some degree limited our options vis-à-vis a dispute settlement mechanism. That is, instead of going to the GATT, where we have had considerable success historically, albeit I would say that since the new government came in we have not been as aggressive with GATT as previous governments, with the implementation of this deal we are compelled, almost, to make a decision on whether we are going to go to the GATT or to go to this dispute settlement court. Is it not a concern that, again, hypothetically, if this thing turns out to be a bust, we have limited options?

Ms. Maxwell: I will let Bob Jenness speak to the second part of your question, but I would like to go to the point you made before that, which is that the legal opinions you have reviewed are negative. I think there are quite a large number of legal opinions—

Mr. Ferraro: That are positive.

Ms. Maxwell: —that are positive, and those legal opinions, to a considerable extent, come from people who have had in-depth experience with the way Canada-US disputes have been resolved in the past.

Mr. Ferraro: I can use the same arguments for the negative. I am not arguing that there is a differentiation—fair ball.

Ms. Maxwell: I just would like to make it very clear that the council, in taking its view, reviewed all of those opinions. Bob, would you like to speak to the point about closing our options vis-à-vis using the General Agreement on Tariffs and Trade?

Mr. Jenness: My understanding of the dispute settlement mechanism is not that it is an either-or proposition, but that you have still remaining the two routes you can pursue. If there is an action, let us say, in the United States, the first thing that happens is that they must advise us and there will be consultations held between the two governments with respect to it. If they proceed under their sections 201 or 301 with respect to countervails or antidumping, these are both subject to the dispute settlement mechanism with the binational panels, which effectively will operate more quickly and with more ultimately binding power than is the case if the issue is taken to GATT.

Mr. Ferraro: We hope.

Mr. Jenness: But we are not precluded from taking it to GATT should we so desire.

Mr. Ferraro: I understand that, but my understanding, and maybe the researcher or someone on the committee can correct me, is that when we get to that point, I am led to believe, perhaps erroneously, that we have to make a decision whether we are going to go to the dispute settlement mechanism tribunal or to the GATT. We have the choice, admittedly. All I am saying is that if we are in a free trade agreement, it would make no sense whatsoever for us not to comply with the agreement we are in. Really, what decision do you have?

Mr. Jenness: What you are saying is that we choose the preferable route, and I would say that is an advantage with the agreement, not a disadvantage.

Mr. Ferraro: It is your opinion now that it is the preferable route.

I am not convinced yet. That is why I said that historically we will not be able to tell that until we have gone through it.

What concerns me, if I am right and you are wrong that the dispute settlement panel will not be as generous or effective as was the case when we went to the GATT, is we will then have tied our horse to a crumbling wagon. Do you understand what I am saying?

Mr. Jenness: Exactly.

Mr. Ferraro: Would you agree with that?

Mr. Jenness: Should the agreement be ratified, we must see what develops with respect to decisions made by the binational panels. I am sure that we will learn and that we will then be in a better position to make our future choice as to which route we will go.

Mr. Ferraro: But not be compelled, in your view.

Mr. Jenness: No.

Mr. Ferraro: OK. Another question I have, which is a personal burr under my saddle, deals with the energy one. I have read your synopsis of it. You talk about increased access and the degree of energy resources and all the rest of it. I do not disagree with anything. I am aware that we are already part of the International Energy Agency in the time of shortages and have certain obligations there. I am also aware that we can make preferred deals commercially with the United States, that are lower prices than, for example, they might make in Canada.

Bearing all that in mind, and all the facts and figures dealing with oil and gas, and you know, probably, that approximately \$7-billion worth of oil and gas is imported into Ontario on an annual basis, there is something that irritates me, which the committee will recall, in Washington surprised people like Sam Gibbons and surprised the head bureaucrat—I forget his name—in charge of energy negotiations. I think "surprised" is a safe word. Where I think the sovereignty issue comes at issue, Ms. Maxwell, is when we have a deal with the United States at X price over a period of time with X number of cubic yards of whatever, fine, we should live up to that deal. No one is disputing that.

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Where the kicker comes in that I, as a Canadian, resent is, if we want to lower the price of that same commodity—gas or oil, let us say—to Canadians, who in my view have already paid, to some degree, for the discovery and development of that resource—and the premise, of course, is that it is a Canadian resource, not Albertan; or uranium does not belong to Ontario—then we have to lower the price of the deal we have signed with the United States. My contention is it is none of their damn business as long as we abide by the deal we signed with them.

The reaction I got when I posed it to the people in the United States was essentially—and the committee can correct me if I am wrong—"There is no way that we would have signed a deal like that if we were in Canada's position." I think it is a serious infringement on Canadian sovereignty, whereby the price we charge Canadians for their own resources, to some degree, is shared with the United States. I am not sure the two should be related, and

I wonder if you could comment on that.

Ms. Maxwell: My understanding of the deal is that the government cannot intervene to say that you will sell Alberta oil to Ontario for X per cent less than—

Mr. Ferraro: But they can subsidize it or give concessions.

Ms. Maxwell: But there can be private contractual arrangements between producers and distributors or consumers that will differ according to the conditions of the contract. The conditions of that contract do not have to be passed on to other people holding commercial contracts, in the same sense that it is not normal commercial law that this sort of thing would occur. So I think there is more potential for differences in prices than perhaps you are reflecting in your question. The important difference is that those differences are negotiated in commercial contracts between private citizens, if you want.

Mr. Ferraro: I am not talking about commercial contracts. I understand that. I am talking about a social program, if you will.

Ms. Maxwell: Well, the council has been on record on using energy as a social program for a long time. Really, there are serious disadvantages to trying to set the price of oil in Canada differently from what is in the international market. We had a lot of experience with that in the 1970s, and frankly, that is a piece of sovereignty that I would not regret losing, because I do not think we have used it in a way that has turned out to be of value to us as a country.

Mr. Ferraro: I respect your opinion. I want to make it perfectly clear here that I understood what you are saying. You are at least agreeing. Whether you agree with the process that we use it as a social program, which in reality historically we have, are you saying that it is a piece of Canadian sovereignty we are giving up?

Ms. Maxwell: There is no question that the government cannot now set prices for oil and gas, which it did do in the 1970s.

Mr. Ferraro: Thank you.

Ms. Maxwell: I would add that the United States has agreed not to put on import surcharges, which is something that Canadians have felt threatened by, off and on, for 20 years.

Mr. Ferraro: So they are giving up something that does not exist, but we are giving up something that has existed.

Ms. Maxwell: They are giving up something that has never been quite implemented but which has caused a tremendous amount of harassment on this side of the border.

Mr. Ferraro: You would make a hell of a politician. I want you to know that.

Mr. Chairman: I have Mr. Mackenzie and Mr. Neumann.

Mr. Ferraro: Could I have one last question?

Mr. Chairman: If it is quick.

Mr. Ferraro: I will try to make it quick. The last question I have is, would you comment on the school of thought that says, much to my chagrin, that we should tear up this deal? What are the ramifications from an economic standpoint?

Ms. Maxwell: I will stay strictly in what I consider to be the realm of the economics of this. In fact, in our annual review, which we published last September, we talked about the potential repercussions for the country if the agreement did not go through; in other words, the negotiations foundered at the last minute.

We pointed out that that could lead to a very fractious period of Canada-US relations, which would be quite difficult for both parties, but certainly for the smaller party to manage.

I think the same would hold in the situation today. There is a whole list of potential trade disputes and irritants between the two countries that have to be dealt with. Many of them have been dealt with in the light of this agreement so that the slate has been cleared to a considerable extent. Those issues still have to be dealt with if it is not going to be through this agreement. So that is one dimension.

The other dimension is that, as in a contract that moves towards conclusion, if one party withdraws at the last moment or even afterwards, there inevitably are repercussions from that.

Mr. Mackenzie: The actual comment as I recall it from Mr. Gibbons, after the interpretation we had of the agreement had been outlined to him, was "Surely no government would be stupid enough to sign a deal like that." I too found it of some concern.

Let me ask you, is it not a fact that the council's position on this deal is going to be to sign it regardless of the current omnibus trade bill that has been passed in the House?

Ms. Maxwell: No.

Mr. Mackenzie: You are clear on that?

Ms. Maxwell: Yes. Bob, can you remind me what page that is on?

Mr. Jenness: Towards the end of the agreement, we spell out very clearly that the views expressed in Venturing Forth are subject to the emergence of an omnibus trade bill that does not in fact destroy what we believe has been achieved.

Mr. Mackenzie: I understand that. I was listening to your comments about the fact that it had been softened to a large extent.

If I can, I just want to get you on the record in terms of the editorial, which I am sure you saw in the Toronto Star, because it also relates to one other question that I asked you earlier. Quoting from the editorial of April 23 in the Toronto Star, "Just days before the deal was done, the council said that 'to be ratified, an accord must satisfy Canadians on a number of fronts.' They were:

"In providing clear access to US markets, the deal must take account of state and local barriers as well as federal.

"It must clearly identify areas of policy, trade and investment that are non-negotiable, as well as domestic institutions, laws and regulations that are beyond the reach of countervailing action.

"It must contain clear definitions of subsidies that are countervailable and those that are not..."—and that, of course, deals to some extent with my earlier question.

"It should contain a dispute-settlement mechanism that would clear up trade irritants quickly and impartially.

"By its own words, the council admits the deal falls short of the criteria for ratifying the deal. So it resorted to weaseling out of them by relabelling them criteria for 'assessing' the deal.

"On state and local barriers, the council now says that its earlier expectations were 'somewhat unrealistic'. In other words, the council called it wrong. But the fact remains that this criterion for ratification was not met.

"Although the council claims the deal satisfies the other three conditions, listen to what some of the individual council members had to say. Economist Diane Bellemare and labour specialist Kalmen Kaplansky warn that since the deal doesn't define which subsidies are legal, 'the independence of Canadian governments in the areas of social policy and economic regional-industrial development could be compromised.'"

I would just like to get your response to that particular comment, as well as an assurance, if that is what you are giving us, that the deal means that the council will not be supporting this free trade arrangement.

Ms. Maxwell: I wrote a long letter to the Toronto Star after it published that editorial. Today, on the opposite editorial page, it has published a part of my letter to the Toronto Star in which I say the following:

"Members of the council undertook a comprehensive review of the agreement and determined that the terms had, in large measure, met three of the four criteria we had set. On the fourth criteria, the council is satisfied with the outcome of the negotiations, although these do not meet our initial expectations."

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Mr. Mackenzie: Does that mean my first question, "Is it not a fact that you will endorse the free trade agreement in spite of the omnibus bill?" is accurate, or can you explain to me?

Ms. Maxwell: No, indeed it is not. In the report we say that Canada should withdraw its consent to the free trade agreement if the omnibus trade bill turns out to be damaging to our interests. Basically we are taking a similar position.

Mr. Mackenzie: So it is a definition question.

Ms. Maxwell: It is a question of what ends up being in that bill. I

said earlier, it has been softened. I would not say to you at this point that we have been able to do the kind of analysis that would tell us whether or not it has now become acceptable. But I also said there are serious doubts about whether or not that bill will be passed.

Mr. Mackenzie: Let me change just slightly. You have commented—I forget your exact words—in terms of the auto pact, that it is acceptable or the best deal we could get. I would ask you a question, and I will tie it into my final question in a minute.

Why is it the position of the council that the automobile deal is acceptable? Why is no weight given to the views of some of those directly involved? Why have you rejected totally, for example, the arguments of the CAW in certainly the biggest, most expensive and most comprehensive campaign it has ever conducted, through its staff, with every single one of its locals in this province, that the deal is not a good one and it wants nothing to do with it? Their position seems to have been totally rejected.

I am just wondering where the input is from some of those bodies that are not in line with the council's position.

Ms. Maxwell: I can assure you we have quite carefully studied the positions that have been put forward by the CAW and others on that set of issues, and we have looked at the economics of that industry.

As I said earlier, we feel that one of the dominant factors in the industry is the competition among countries. Canada has done extremely well in recent years in attracting a high share of North American production and in attracting a high share of the North American production facilities of the Japanese companies, which to us indicates that the economics of location and production in Canada have been very favourable. In effect, the safeguards have been exceeded. As long as we hold on to that competitive position, we will continue to be in a favourable position.

Mr. Mackenzie: That is once again a leap of faith, though. Those who are directly involved—they also have some very intelligent researchers and certainly a vested interest, probably over and above the council's position—their opinions do not carry much weight in terms of your assessment.

Ms. Maxwell: The safeguards are still there. If it came to the point that the economics of location in Canada deteriorated and we were beginning to lose the strong share of North American production that we now have, the safeguards would still be there; so there is a flaw.

Mr. Mackenzie: Let me go back to the third and final one. We had a bit of a testy exchange with one of the business groups that was before this committee some time ago. I remember Mr. d'Aquino and Mr. Powis were part of the delegation. There were others who were on it. One of the responses to questioning in effect their impartiality was—and I was using the same sort of argument—"Why aren't you listening to some of the other groups that have counter concerns?" My own steelworkers' union is another one. Their argument was that if they had to rely on advice to the government, they would have much more faith in relying on the type of delegation that was there than some of the others that were, I guess, in the category of naysayers.

When I look at your council—this is a point that was being made by my colleague—I see that 18 of them are executives of major corporations. Probably a majority of those who do not fit in that category were among those

who signed the dissent. In effect, are you not saying the same thing, "Ours is the only advice that you should be following" on an issue as important to Canada? This is not a trade issue, as you know. It is a political issue now very much in the arena. How can you claim an impartiality when "almost universal" has been the position of the kind of people who are on your council?

Ms. Maxwell: I do not think you very accurately described my council members.

Mr. Mackenzie: I look at the insurance companies, at Dofasco, at lumber companies; the vast majority of them are major corporate entities.

Ms. Maxwell: Five or six of those are large Canadian corporations. Quite a number of them are small business people active in export markets who come from, if you want, the outlying regions of the country and who very much understand the pressures of competition in their own communities. On signing this document, they then had to go home and stand up and be counted in their own community, so they are reflecting, I think, a much broader base of representation than you are giving them credit for.

Mr. Mackenzie: You also then reject the argument we made earlier, and that was certainly in the editorial in the Toronto Star, that one of the major components of this deal is what are going to be subsidies in effect. The fact that is not settled does not have any effect on the position of your council in supporting this deal, even though, in other words, we do not know a major component of the rules we are going to have to operate by in this country.

Ms. Maxwell: The position of the council on that is that we do not have to sign something we do not want to sign. For the interim period the two governments have agreed to rely on the GATT subsidies code. We feel the GATT subsidies code provides the kind of framework that Canada can happily live with in the sense that it provides scope for whatever kinds of regional and social subsidization you wish to do. Any redistribution among individuals and among regions is accepted by the GATT subsidies code. What is not accepted is subsidies that distort trade or trade-related investment.

On that particular issue, the council has been on record in any number of reports in the last 10 years which have shown that those subsidies do not have a high social payoff anyway—the ones that do distort trade.

Mr. Mackenzie: So we should not worry at all then about some of the social programs we have, or for some people who might want to institute, for example, a provincial auto insurance plan, which we have been told would probably be impossible if the US auto insurance companies decided they did not want this under a free trade arrangement. These kind of issues are not important to us in terms of the government intervention role that has been played in this country?

Ms. Maxwell: Those issues of social programs were absolutely critical in the council's analysis—also culture, health. We made it very clear that there had to be exclusions from the agreement, and there were exclusions from the agreement.

Mr. Mackenzie: I guess this is my final comment. The difficulty I have and the reason that, legitimately, whether people like it or not, the credibility has been raised is reflected in a question I raised with one of the previous business groups.

I have not seen any of those companies or business groups being in the forefront of many of the battles we have had in this country, whether it is health or pensions or you name it, for issues that are important to setting up the social networks and protecting people. Therefore, why should I give them credibility in terms of something that affects my sovereignty, because there is a sovereignty issue, and the issue of jobs in this country?

Ms. Maxwell: Could I just direct Mr. Mackenzie's attention to the list of projects we have under way, as a council, which reflect the council's very strong interest in the kinds of issue areas he has raised?

Mr. Mackenzie: I would hope that you have some people other than just these on them if they are social issues.

Mr. Chairman: In any event, I think you will both agree that you have to agree to disagree on the tone of the council or those particular questions.

Ms. Maxwell: Could I table this letter that I wrote to the editor of the Toronto Star?

Mr. Chairman: Yes, please do. That is the complete letter to the Toronto Star.

Ms. Maxwell: I will give copies to the clerk, perhaps for circulation to committee members, because there are a number of paragraphs that were dropped out.

Mr. Chairman: I appreciate your coming down today and being with us, both of you. Obviously, you have not persuaded all members of the committee, but at the same time I think you have injected a new thrust to the debate, and as I indicated, you have given us in these documents some valuable material with which to work. We appreciate your helping us.

Ms. Maxwell: We are always glad to reply to a request from this committee. Allowing for the fact that there will be times when we disagree, I am sure there will be times when we agree as well.

Mr. Chairman: That may occur. If it is the case that you eventually do a report on the omnibus trade bill, you may well come to the conclusion that we should withdraw from the agreement in any event. Will you be doing a report on that?

Ms. Maxwell: We are not planning to do a specific report on that omnibus bill, no, but we will make a comment in our next annual review.

Mr. Chairman: I see. All right; thank you.

I should tell the committee that research is doing an analysis of the bill that was passed by the House of Representatives as it relates to Ambassador Gotlieb's letter to the Congress and the demands that he made of the Congress in March. That should be available for distribution next week.

Next week, we will be meeting again in this room. Until then, we will adjourn.

The committee adjourned at 12:01 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, MAY 12, 1988



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ontario Natural Gas Association:

Pinnington, Paul E., Managing Director

Cooper, W. Jack, Member, Board of Directors; Senior Vice-President, Marketing and Gas Supply, Union Gas Ltd.

Safrance, Charles F., President, Senior Vice-President, Operations, Consumers' Gas Co. Ltd.

Individual Presentation:

Fisher, Barry Michael, Solicitor, Gowling and Henderson

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, May 12, 1988

The committee met at 10:03 a.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Good morning and welcome to the session of the standing committee on finance and economic affairs, which is meeting to discuss the trade agreement between Canada and the United States, a matter which we have been looking at for some several weeks now. Generically, we have been looking at this issue right from the beginning of the committee's existence. I often say that this committee has had more input into this issue than any other legislative committee, federal, provincial or state, on either side of the border and I have never been contradicted.

This morning we are hearing from the Ontario Natural Gas Association, followed at 11 o'clock by Barry Fisher, who is a solicitor who will be discussing some of the constitutional aspects of the agreement.

We have with us this morning from the Ontario Natural Gas Association Paul Pinnington, managing director; Mr. Safrance, the president of the association and senior vice-president of Consumers' Gas; and Mr. Cooper, board member of the association and senior vice-president of Union Gas.

Mr. Pinnington, if you would perhaps lead us through your brief, then we will be prepared to ask some questions shortly thereafter.

ONTARIO NATURAL GAS ASSOCIATION

Mr. Pinnington: Thank you, Mr. Chairman. Good morning, members of the committee. I am Paul Pinnington, managing director of the association. To my right is Charles Safrance, and he has been introduced, and Jack Cooper is on my left.

We have appeared before this committee before, on two previous occasions, as I believe you are aware. I would like to confirm, however, for the record that we represent the members of the Ontario Natural Gas Association. The association is an industry organization with over 300 members, representing natural gas distributors, producers, equipment manufacturers and suppliers, contractors and individuals in Ontario. We are pleased to be with you today, and thank you for inviting us to appear.

On behalf of the members of the association, we have prepared a brief which addresses certain specific matters regarding the Canada-US free trade agreement. I believe this document, as well as your related letter addressed to the Honourable Senator George van Roggen, have been distributed to members of the committee for consideration prior to today's session.

Mr. Chairman: That is correct, although we do have other copies here in case members did not bring them with them.

Mr. Pinnington: We have also prepared an overview of our position

which I propose to present to you this morning, and with your concurrence, Mr. Chairman, my colleagues and I would then respond to any questions that you may have.

The brief, the van Roggen letter and our overview have been provided to the clerk of the committee and a copy of the material is in the hands of Hansard. Additional copies of the brief and the van Roggen letter are available to interested parties here present, Mr. Chairman. With your permission, I will proceed.

Mr. Chairman: Thank you, go ahead.

Mr. Pinnington: The increasing importance of natural gas in Canada's economy underscores the need for a national energy policy to assure secure future supplies. It is the view of the Ontario Natural Gas Association that recent changes to federal policies have possibly serious, long-term implications for security of natural gas supply to Canadian consumers.

Our brief outlines three specific areas of concern: first, erosion of the National Energy Board regulatory powers; second, impact of proportional sharing of energy supplies under the free trade agreement; and, third, inconsistencies in current federal-provincial policies.

With regard to the National Energy Board, the National Energy Board Act requires the NEB to regulate natural gas exports and ensure an available surplus to meet reasonably foreseeable Canadian needs. New surplus determination procedures were adopted by the NEB in 1987 in recognition of Canada's market-oriented pricing policy for natural gas. Natural gas exports are now regulated through public hearings for export licences and ongoing monitoring of Canadian energy markets.

The public hearings process includes NEB review of complaints that Canadian users cannot contract for gas on similar terms to those of the export proposal, an impact assessment of the proposed exports on Canadian natural gas requirements at fair market prices and other factors considered relevant to determine if the export license application is in the national interest.

It is the association's view that all controls envisioned in the NEB decision to adopt a market-based procedure to ensure security of supply must be retained. Reduction of existing NEB powers by amending legislation to conform to the terms of the free trade agreement effectively eliminates future Canadian actions or policies to supply domestic needs independent of export markets.

The second question is the requirement for proportional reduction of energy supplies. The free trade agreement requires a proportional reduction in the supply of Canadian gas to both domestic and export markets should a shortage of supply occur or be perceived to occur at some future date. This reduction is based on the average of the previous 36 months' shipments. Should this clause be implemented, for whatever reason, the impact on Canada would be of far greater magnitude than on the United States.

Canada now supplies approximately five per cent of total natural gas consumption in the United States, whereas virtually the entire Canadian market is dependent on domestic supply. A 10 per cent reduction of natural gas supplies would affect fully 10 per cent of the Canadian market, compared with about 0.6 percent of the US market in national terms.

It is incumbent upon the Canadian government to negotiate a more equitable formula in the free trade agreement for sharing of energy supplies in the event of a short-supply situation or a perceived shortage. This formula must fully recognize Canada's dependence on its own national resources to meet domestic energy requirements.

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The third item, Mr. Chairman, is inconsistencies in federal-provincial policies. Producing provinces have the jurisdiction to determine prices for natural gas and to allocate supplies as necessary within their borders. Establishing minimum prices for supplies contracted for outside the province is in direct conflict with the provisions of the free trade agreement. Similarly, provincial policies that provide residents priority access to natural gas supplies conflict with the agreement. Should this policy be applied, the burden of proportional sharing of supply shortages would fall entirely on the nonproducing provinces and the impact would be greatly magnified.

The situation that exists in Canada is a national policy that advocates market-oriented pricing and protection of security of supply through long-term contracts. Federal control of price and supply is relinquished except under extreme circumstances. In contrast, the producing provinces retain control over price and supply of natural gas and can administer surplus requirements: for example, the 15-year requirement in Alberta that ensures supply for core market customers.

Federal and provincial natural gas policies conflict at present, as both government and industry adjust to the regulation. But the problem is exacerbated under the free trade agreement. The result is a two-tier domestic market. Access to long-term natural gas supply is protected for residents within the producing provinces without protection to other Canadian consumers.

It is the association's view that the federal energy policy must recognize the need for a mechanism to guarantee security of supply for all Canadians, just as the producing provinces have recognized the need to ensure security of supply within their borders. Failure to do so will only serve to further divide regional interests and increase barriers to interprovincial trade.

In conclusion, the Canada-United States free trade agreement, in effect, creates a North American market for natural gas. The United States currently has a 10-year reserve-to-production ratio while Canada has 30 years. If the United States has equal, unfettered commercial access to Canadian supplies, the result is a combined 13-year ratio. This reflects the immensity of the US market and its limited-supply situation.

We do not believe that Canadians have yet realized that their natural gas supply security margin could overnight be more than cut in half, nor do we believe that sufficient consideration has been given to the impact of a rapid increase in the number of long-term, large-volume contractual agreements with US buyers which is likely to occur. We also take no comfort in committing to an agreement of such magnitude, knowing little more than that "the actual method of implementing proportionality would be determined by the government of the day." Government assurances that supply shortages are only a theoretical argument unlikely to ever trigger the proportional sharing provision are not sufficient guarantee of supply security, nor are assurances from private interests that exploration and development spurred by increased

demand will secure future supplies and maintain deliverability.

Section 83 of the National Energy Board Act assures Canadians that their foreseeable needs for natural gas will be met before export commitments are made. Legislation and regulations that are now being written for the Canada-US free trade agreement should not undermine the role of the National Energy Board or diminish the responsibility of the federal government to manage Canada's future energy. It is the association's view that the spirit of the free trade agreement can be maintained while establishing a more equitable provision for sharing supply shortages.

Specific measures that will ensure security of natural gas supply include:

First, all controls established in the NEB decision to adopt a market-based procedure should be retained. There should be no further dilution of the NEB powers as implied in the free trade agreement.

Second, an equitable formula should be established in the free trade agreement for sharing of energy supplies should a shortage or perceived shortage occur.

Third, national and provincial energy policies should be consistent so that all Canadian consumers receive the same protection from potential shortages.

Finally, we are not against free trade, nor are we against increased exports of natural gas to the United States. However, we are seriously concerned with some aspects of the present agreement related to security of supply, and the question of proportional access in particular.

Mr. Chairman: Thank you very much, and thank you for leading us through that in a way which highlights those aspects of your brief which you wish to bring to our attention.

I should tell you that last week we heard from Judith Maxwell, the chairman of the Economic Council of Canada, and under some incisive questioning from Mr. Ferraro on these points she agreed that we are surrendering sovereignty in so far as the energy sector is concerned in this particular agreement.

Mr. Haggerty: I just had time to go through this very lightly this morning, but looking at the brief submitted by the Ontario Natural Gas Association—I am looking at page 5 of the report—your report really puts a cloud over the free trade agreement and I think there is every indication there that you are saying to us it is not the best deal for Canadians to go this route.

Paragraph 3 says, "Establishing minimum prices for supplies contracted for outside the province is in direct conflict with the provisions of the free trade agreement." Could you elaborate on that a little bit more?

Mr. Cooper: Alberta has in the recent past established the minimum prices for its gas for the purposes of what we call direct purchase, which is a new method of buying gas under deregulation. Large industrial customers and consortiums of smaller customers have been able to get together and buy gas directly. The price was coming down, and what Alberta had done was establish some guidelines which basically said there will be a minimum volume for the

end-use location and there will be some minimum prices. Essentially, we have been arguing that should not be and could not be the control mechanism that is used. If the deal is negotiated below those minimum prices, the Alberta government refuses to issue export permits or removal permits from the province.

Mr. Haggerty: Then you go on to say in the next paragraph, "Should this latter policy be applied, the burden of proportional sharing of supply shortages would fall entirely on the nonproducing provinces and the impact would be greatly magnified." Can you give us further explanation on this particular paragraph?

Mr. Safrance: That really means that Alberta itself has decided to have a reserve security for its own needs over a term and that if proportional access came into being through some restrictions that Canada imposed on the *xports, our feeling is that Alberta would still be assured its needs prior to the proportionality coming into effect. In other words, if the market is 10 per cent short, that 10 per cent would not apply within Alberta but to the rest of the Canadians.

Mr. Haggerty: They are protecting their own province, in other words?

Mr. Safrance: Yes, correct.

Mr. Haggerty: So they are saying, "Forget about the rest of Canada; all we're interested in is exporting to the United States now."

Mr. Safrance: That is our understanding.

Mr. Haggerty: If I can look at a Report on Business where they are talking about McLeod Young Weir forecasting a 50 per cent increase in export of gas to the United States, what impact will this have on the supply of energy to Ontario? If it is only five per cent now, with the 50 per cent I do not know what numbers you are looking at.

Mr. Chairman: That was in Monday's Report on Business in the Globe and Mail.

Mr. Haggerty: Yes.

Mr. Cooper: The amount of natural gas flowing across the border to the US in recent years has dropped considerably. In the last year it has risen considerably. I am not sure that these numbers are absolutely accurate—I sort of carry them around, so you would have to check them—but just roughly, about 700 billion to 800 billion cubic feet of gas a year flows to eastern Canada or Canadian sources, and I understand that roughly 700 billion right now is flowing to the United States, so we are at about an equal amount of gas flowing out of Alberta to the United States as is flowing to Canada.

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If the amount flowing to the US increases by 50 per cent, that would say that in essence we would have 1.5 times the amount of gas flowing to the US as to eastern Canada. If proportionality is invoked, if there is a future shortage and we are short 50 BCF—let me use the number 60 BCF because it is easier—our cutback in eastern Canada under that condition would be 20 BCF and the US cutback would be 40 BCF on a flow of two to one to the United States. Our cutback, though, would be essentially a percentage of our market. Their

cutback would be applied to a percentage of their market. Our market share percentage cutback, when we went to apply that cutback in the market, would be 10 times greater than in the US because it has its own supplies, which are enough.

Mr. Haggerty: You are telling me there could be some serious and damaging effects on Ontario in this deal that is proposed with the United States?

Mr. Cooper: As the exports increase to the United States, our vulnerability, our sharing of the flow, our right to the flow out of Alberta will be reduced under proportionality.

Mr. Haggerty: What happens to the National Energy Board in this area? Is its purpose not to protect the flow of energy across Canada?

Mr. Pinnington: Historically, that has been correct. The terms of the free trade agreement, however, suggest that the role of the board may be greatly reduced. We have not yet seen the legislation and the regulations, but if one reads verbatim the transcripts to date on the free trade information, the suggestion is that the role of the NEB would be greatly diminished.

If that is in fact the case, section 83 in particular, part of which we have read to you in our presentation this morning, and if the NEB loses that power, it would mean that the government of the day would have to make a decision whether an export was appropriate or not, as opposed to a quasi-judicial independent body such as the NEB.

I would like to give some further information on Mr. Cooper's numbers. He said 700 BCF to 800 BCF. Indeed, that was the rate through 1986 and into 1987, but most recently the volume of gas has started to flow at a much better rate to the United States and is now flowing at a rate of about one trillion cubic feet a year. The authorized exports to the United States, the exports the National Energy Board has already authorized for movement, are about 1.5 trillion cubic feet. I am not sure what the quote from the Globe and Mail was. I am not sure the assumption is not that it would not be an increase of 50 per cent in the approved exports to the United States. Producers, people in western Canada and the US trade people are suggesting that the volume of gas that might ultimately move into the United States would be and could be double the present approved lot, namely, about three trillion cubic feet a year.

Mr. Haggerty: So there really is no protection at all provided in the free trade agreement to the other provinces that depend on natural gas from the western provinces.

Mr. Safrance: There is some protection. The byword we keep hearing relative to the NEB is "monitor," as in "monitor the situation." In other words, if some permit export requests came through, I think the NEB would still be vetting them, but in fact it would not have the right to refuse them, or if it did refuse them, this would be taken as a perceived shortage, and if there is a perceived shortage, the proportionality clause comes into effect. They will have some powers, but certainly nothing compared to what exist today.

Mr. Haggerty: In this area the next question is, in regard to the free trade agreement with the United States and Canada, we have 50,000 barrels of crude oil coming into the western part of British Columbia. Now, after the Americans have taken a close look at it, they are saying: "This is against our Constitution. We cannot do this and it should go to Hawaii and California and

other places." They have protective measures in their Constitution that supersede the free trade agreement. We have nothing here to protect Canadians. Am I correct in that?

Mr. Safrance: I am sorry. I cannot answer that.

Mr. Haggerty: You cannot? You have not looked at it—

Mr. Pinnington: We will not really know the answer to that question until we see the legislation and the regulations relative to the free trade agreement.

Mr. Chairman: I saw this article as well yesterday, Mr. Haggerty, that suggests that the Americans are going to try to back out of that article. Article 103 requires our federal government to take all necessary measures to force the provinces or else gives the Americans trade retaliation powers. Surely the American federal government has to do the same thing and amend its Constitution to abide by the agreement or else we can take retaliatory trade measures.

Mr. Haggerty: For the Americans to change their Constitution, we are looking at 50 years down the road, and we have only got 13 years' supply of natural gas.

Mr. Chairman: No, they have got to do it this year, according to the agreement.

Mr. Safrance: It is interesting, Mr. Chairman, in that the free trade agreement, at least the wording that we interpret in there, is such that it, in fact, does take some powers away from the National Energy Board that we feel are necessary to guarantee domestic supply. On the other hand, though, the free trade agreement in no way restricts the responsibilities and authority of the Federal Energy Regulatory Commission which has been a barrier to western producers exporting gas into Canada. So the western producers are looking for some way to increase exports. They have reduced the powers of the NEB, yet FERC has maintained all of its authority and responsibilities.

Mr. Chairman: I am just wondering also, Mr. Safrance, when you talked about Alberta's protection for their own supply, if we could be doing the same thing for uranium in Ontario. Interesting question.

Mr. Pinnington, I do not want to necessarily embarrass you, but you indicated that you had not seen regulations yet with regard to this. I had understood from a private conversation with you that you had at one time been invited to Ottawa to look at some regulations that the federal government was hoping to satisfy you with. I take it that has not jelled?

Mr. Pinnington: This was a private conversation that we had, I think, probably some three or four months ago.

Mr. Chairman: Yes.

Mr. Pinnington: We never did, in fact, see the draft regulations. We still have not seen them. I am led to believe that they have reached, in some formal stage, our federal cabinet, but we have not seen the documents as yet.

Mr. Chairman: That is interesting.

Mr. Cooper: In response to Mr. Haggerty's line of questioning, I think the key to Canadian and particularly the consuming provinces' security of supply is section 83 of the National Energy Board Act. It clearly states that the National Energy Board has the power to ensure the future supply; security of supply of Canadians is protected before exports are allowed. That is modelled after the old Alberta act which said that before Alberta will allow oil or gas to go out of the province, it will ensure that its citizens' future energy needs are protected. The National Energy Board Act was set up on that basis.

All the policy direction of free trade is to basically eliminate that or to reduce that substantially and turn the National Energy Board more into just a recording function. If the National Energy Board Act refuses to allow an export, then they say, "That will trigger the emergency and all these sharing formulas will go into effect and we will lose by these sharing formulas."

Mr. Pinnington: We are not here as policy witnesses on the oil side, but there are a couple of pieces of information there that I think are very important. The reality is that the United States now purchases from offshore something in the order of 40 per cent of all the oil that it consumes. So it is a very dependent country in terms of offshore crude.

The 50,000 barrels a day that Canada has been offered is oil from Prudhoe Bay. It is Alaskan oil that is heavy in gravity, high in sulphur and cannot be used in the present refining facilities on the west coast anyway. I think the last paragraph or so of the article you referred to in yesterday's Globe and Mail does suggest that the whole thing is a bit of a tempest in a teapot.

The other important statistic is that Canada is now exporting to the United States something in the order of 800,000 barrels of oil a day. So any suggestion that we might rely at some point in time for any significant amount of oil from the United States is an absolute lack of understanding of the balance of the availability of crude oil.

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Mr. Villeneuve: Thank you for expressing the concerns of the Ontario Natural Gas Association.

There is another important player that has not been mentioned here yet this morning. As you know, we are a signatory to the General Agreement on Tariffs and Trade. How protectionist, in your opinion, can we be without being challenged under the GATT?

Mr. Pinnington: This is an important question and in fact one that is raised as a result of the importance that GATT now apparently has relative to the free trade agreement. The free trade agreement in effect is founded on GATT. Most of the understanding of how trade will work is a reflection of the original GATT rules. Indeed, you will see in the letter we wrote to Senator van Roggen, it does raise some questions about what is happening today and what has happened historically.

The answer we received from individuals we have asked is that it has just never been tried in the courts. No one has ever taken any of the anomalies which are apparent in terms of things that Canada and the US have done in terms of trade on energy products. They appear to have offended the GATT, but no one has ever tested them.

Mr. Villeneuve: It is our understanding that we were on pretty thin ice with the National Energy Board method of operating and could have been challenged. We could have been found in contravention of the GATT, at which point I do not know what would have happened. Do you have any comments on that?

Mr. Cooper: I think that was more in the area of previous pricing policy rather than what I am going to call management of flow or management of volume policies. Some of the discussions I have had would indicate that if you have an internal policy that says, "I am going to keep so much within my country before letting it out," GATT does not get involved. GATT gets involved when it flows out. Under the old national energy program we had kept the price in Canada low and we had raised the price to the United States. I think that is where we would come afoul of GATT.

I do not think protecting our own internal security by saying, "We are just not going to put this much on the market," would be in violation of GATT. Indeed, the free trade policy does envision the province of Alberta doing that. Alberta has existing surplus test requirements, which the feds have said they will protect for Alberta, that will allow them to maintain security of supply protection for the residents of Alberta.

Mr. Villeneuve: So as I see your position here this morning, you would like to see some additional degree of protection and you feel there is room to manoeuvre there between a GATT challenge and what we now have under the FTA.

Mr. Cooper: I think that is correct, except I am not too sure that room to manoeuvre has not been bargained away.

Mr. Villeneuve: I guess time will tell that.

Mr. Kozyra: Most proponents of free trade argue the benefits of access to a market that is at least 10 times as large as ours. Your concerns about proportionality, perhaps more clearly than any other presentation to date, have graphically illustrated the downside of that type of excess leverage or a market that is so large where it affects us 10 per cent to their 0.6 per cent. That not only applies to natural gas, but in many other factors across the board.

You speak of an equitable formula as a kind of antidote for this proportionality. Have you thought it through to suggest what that equitable formula would have?

Mr. Safrance: A simple answer would be that if proportionality came into being, the effect in both markets should be equal, so, that if 10 per cent of our market is affected, why would 10 per cent of their market not be affected, that type of simplistic thinking. Although you will get arguments that is not exactly the way it happens because, as you well know, northern California is greatly dependent on Canadian gas and 70 per cent of the usage in California is Canadian gas and you could not treat them the very same way as you would the southeast, as an example.

It is complicated, but I am sure that something could be worked out that would make it more equitable for both markets.

Mr. Kozyra: What do you say to the argument, and we heard this from the person who negotiated the energy pact for the US, in response to compliments about the fact that he really had done well for his country, while

putting it to Canada, he basically said, "Well, that may be true, but what we took there, we give back in other areas, so it is a give and take." What do you say to that? Are we prepared to give that in natural gas, surrender that and take somewhere else, or does that not hold water, so to speak, in your view?

Mr. Safrance: We think the proportionality formula in the free trade agreement is very unfair and could cause serious harm to the economy in eastern Canada; that is all we can state. What you would have to give to get it back, I have no idea.

Mr. Kozyra: Thank you.

Mr. Ferraro: Thank you, Mr. Chairman. Thank you, gentlemen. I apologize for being a little late, but I tried to catch up by reading it. For me, personally, the energy sector is the most contentious of the negative aspects of the FTA and for the benefit of my colleagues, reduction of tariffs is a positive, but I personally think the negatives far outweigh the positives.

Having said that, I want to go back over a little ground that may have been touched by Mr. Haggerty, because it is very important to me and I think to everyone concerned, just so I understand it correctly. I do not want to talk, Mr. Chairman about my pet peeve, about the pricing, which, as you indicated, and as Judith Maxwell confirmed, is a loss of sovereignty, but I want to make sure about the access part of it.

Both your brief today, your explanation and a brief we received a few months back from the Ontario Ministry of Energy were saying that access to supply is a problem. Those who have argued that access to supply is not a problem have said, "Well, notwithstanding section 83, we are still signatory to an international agreement irrespective of the FTA that says if there is a shortage, we have certain obligations in a international sphere to live up to." So we are in, irrespective of the FTA.

Their second argument is that any agreement we make with the US, is going to go through about five levels of decision making, at least here in Canada and will be made on the basis of reserves. You point out that at present we have 30 years and the US has 10 years. So the question of course is, "OK Ferraro, why the hell then are you worried?" Because if there is a shortage, we have obligations already and secondly the deal that we are making with the US, in this particular case, is out of our reserves anyway, so it should not affect our supply.

Mr. Safrance: Well, I think access to supply—you are only considering the supply end. There is also the deliverability problem. You can run into a deliverability—the reserves could be there but you have got to get it to market. If a deliverability problem does occur that is the very same thing as having a shortage.

Mr. Ferraro: Well, let me ask you the question though, and excuse me for interrupting, why would there be a deliverability problem, why would that situation exist when there is a shortage worldwide or the Organization of Petroleum Exporting Countries decide they are going to pull in their horns a little bit, as opposed to the normal course of events?

Mr. Safrance: The deliverability problem in our situation means pipeline capacity; the type of pipeline capability. And if you have a situation where the demand increases, you are going to have to put plant in

place. Usually that takes a two or three year planning period, before you even start constructing the pipeline to put the plant into place. You could very well—this past winter as an example; if we had had a colder than normal winter we would have had a deliverability problem into eastern Canada. If that happens, there is a shortage. If there is a shortage, the proportionality clause comes into being, and we must share that. We must share that deliverability problem with the US.

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It happened in the 1970s, and this is one of the reasons, of course, why this proportionality clause is in the free trade agreement. There was a problem of deliverability into northwest USA, and I understand that at that particular time, the Canadian government cut off the exports, period. It did not share the problem with the US.

Under the proportionality clause, the problem will have to be shared, and we are not disagreeing with that. We are just saying it should be shared fairly.

Mr. Ferraro: I appreciate what you are saying, but I have this mental block here. I will say it one more time and maybe you guys can tell me I am full of beans or whatever. If Canada makes a deal with the United States to sell gas, we make it out of our reserves, thereby protecting domestic supply. I am not talking about the pricing. I am talking about a contractual agreement, which I think we should live up to. If there is a deliverability problem, then I think as business people, we have to solve that. If we have consented to make a deal, then let us live up to it. The assumption, of course, is that it is out of the reserves.

Where I am still confused is, if there is a shortage, how the hell does that affect our domestic supply? If we have made that contractual agreement out of the reserves to begin with, and assuming they are correct, God willing, I still do not understand how that is going to affect the domestic—

Mr. Cooper: Maybe I can come at that a little bit. You have a couple of things. You have reserves and deliverability. Reserves means that we are fairly sure that the gas is under the ground there. To get that to your house—

Mr. Ferraro: You had better be damned sure, not fairly sure.

Mr. Cooper: You have to establish it. There are proven reserves and probable and potential and all of those, but basically you work on proven reserves. To get that to the market, you have to drill the wells, you have to pipe them up, you have to gather them together, put them through gas plants, get them in the pipelines and you have to get them down here.

In Canada, compared to our market, we have lots of reserves. We are not too high on deliverability. There is a lot of gas out there. There is one well or a couple of wells drilled on a location and nothing else, and it is covering our reserves, but it is two or three years away from getting to market.

The United States is slightly different. They have not got many reserves, but they have it drilled and piped up all over the place and double—and triple-piped. So they have really big deliverability but not many reserves. All future projections comparing supply and demand show that the US is going to run out. All our future projections in supply and demand in Canada

show that we have got lots of reserves and as long as we can plan our deliverability to our reserves and manage that properly, then we should be OK.

Mr. Ferraro: Lots of reserves for our domestic needs?

Mr. Cooper: For our domestic needs. When you add the US demand to our domestic, they can suck us dry.

Mr. Ferraro: Right.

Mr. Cooper: The likelihood that we see occurring is that as we give completely unlimited access of the US market to our reserve base, they will contract for everything, and the first stuff that is contracted is the stuff that is piped up. That is the stuff that is going to flow and it will just go straight up and draw us dry. We could be scrambling and short of gas for a couple of years while we are piping it up, and running around doing all this, the price could go way up and we could be sharing on 10 times greater cutbacks in Canada than the US because as they come to their shortage, we share the shortages.

Mr. Ferraro: Really what you are saying, and I heard you say this, is it is an end run around over the National Energy Board regulations. Is that what this free trade agreement is?

Mr. Cooper: I am not sure whether it is not just a blast right through them.

Mr. Ferraro: Then the final question I have—and I find it quite alarming and I wholeheartedly agree with the fact that Canadians have not realized the magnitude of this—what the hell did the feds say when you presented them with that scenario?

Mr. Pinnington: Do not worry.

Mr. J. B. Nixon: Trust us.

Mr. Safrance: They in fact said that supply and demand will take care of the situation. Good businessmen will see that they can make a profit and they are going to make sure that deliverability is there. Do not worry.

Mr. Cooper: I should add that the assumption in Alberta is, "Good, if the price is going to go up."

Mr. Chairman: I note that former Premier Lougheed, in his evidence before the federal foreign affairs committee, said that he was excited about the free trade agreement in so far as the energy sector was concerned because it would render the national energy program dormant, which means, basically, that what he could not get in Canadian politics, he is going to assign to a bureaucrat in Washington.

I think paragraph 2 on page 4 of your brief is an excellent summary of what you are saying. You point out that the Americans take five per cent of our natural gas consumption and we take 100 per cent, so a 10 per cent reduction becomes a 10 per cent reduction in Canada and a 0.6 per cent reduction in the United States.

Mr. Safrance: In addition to that, there is a 10 per cent reduction in Canada but a far greater percentage than that in eastern Canada, because Alberta takes care of itself first.

Mr. Chairman: Of course.

Mr. Ferraro: By way of conclusion, I think the single most obvious intent—and coup, in my mind—on the part of the Americans was access to our energy resources, and they were quite successful in getting it, much to the chagrin of Canadian sovereignty and security.

Mrs. Cunningham: I have a question when the time is appropriate.

Mr. Chairman: All right, go ahead.

Mrs. Cunningham: I notice, after looking at this, and I apologize for being late, that the bottom line for you, though, is that you are not against free trade—I am looking at page 10—nor are you against increased exports of Canadian natural gas to the United States.

I am interested now in process. How do you really get your point across? You are sounding somewhat frustrated. You said you have been waiting for three months for the regulations. What else are you going to do about it and what can this committee do about it, in your opinion?

Mr. Pinnington: I guess we cannot do anything until we see the final legislation and regulations. Only then will we know what exactly the federal government is willing to commit to. Only then will we know what the future role of the National Energy Board will be. At that point in time, depending on what the result is, I expect it will be up to our legislative leaders to be heard and certainly for industry to be heard, and you can be assured that people like ourselves in the consuming end of the gas industry will be heard as well.

We have expressed our opinion, based on what we know today, to the Minister of Energy, Mines and Resources, to the National Energy Board, to the trade people in Ottawa, to Miss Carney, and we have written to the Prime Minister. I do not know what else we can do in terms of a consumer-oriented body to express concern for the wording we have seen to date.

Mrs. Cunningham: What, then, would be your hope with regard to the regulations and the drafting process after you see them and you are not happy with them? No one is 100 per cent happy, let us face it. What would be your hope as to process then?

Mr. Pinnington: I guess the ultimate item in the process will be if the Prime Minister of this country asks for a mandate from the people to proceed with free trade. Only then will we know where everyone stands.

Mr. Cooper: Your comment on frustration is absolutely correct.

Our area is down Windsor way, so we are close to the United States. They are building pipelines over that connect in. I thought of setting up a US company to buy our gas so that we will get the lower cutback. I do not know what happens when I try to bring it back into Canada, though.

To be quite honest, we do not have an answer on the process or a plan on how to get around this thing. We hope that the public will get a little concerned. The problem now is that the public is quite happy with its energy situation. Energy prices are excellent here in Ontario. What I would like to do is tie some names, either Reisman's or somebody else's name, to the future increase in price or the future shortages. This is the Reisman shortage.

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Mr. Pinnington: Another important perspective: Clearly they are having difficulty writing this legislation and regulation. It is not coming easily. It is also very important to recognize that this same routine is going to happen in the United States, and somehow those two pieces of legislation have to be compatible. I expect that is going to be an immense task in itself. Timing is going to be very important, and we will not know the content until we see the first indication of legislation and regulation. We are told that members of the federal cabinet have seen the draft document, so they must have something that they feel is on the way to becoming a public document.

Mrs. Cunningham: And you are hoping to speak to that document in some arena, public, political or otherwise.

Mr. Pinnington: Whatever arena is appropriate to speak in at the time.

Mr. Chairman: I might comment and I think I should say this on the record, just to follow up on Mrs. Cunningham's questions, that the time that we had scheduled for you to speak to us was, I believe, in January or perhaps early February, when the media were paying a little more attention to this issue than they are today. My recollection is that you called to indicate that you had been called to Ottawa specifically at the very hour that we had scheduled you to appear before our committee, with a promise that you were going to be very happily surprised by these regulations.

I was suspicious at that time that the federal government chose to invite you at that very moment, because I was frankly suspicious that some of our other witnesses were having difficulties appearing in front of us in our scheduling, not Donald Macdonald, but other people. He was able to get here quite easily.

It is interesting that I hear now that the meeting did not really accomplish what it had promised for you. I just have to wonder to what extent some people may be manipulating the media, despite this committee's valiant attempts to get balanced hearings.

Mr. Pinnington: I apologize. The timing was extremely difficult.

Mr. Chairman: You do not need to apologize. It was not your fault. Obviously, if you were going to be told something different, you would want to postpone the review.

Mr. Pinnington: The invitation was that of the Minister of Energy, Mines and Resources, and certainly I was not invited personally. That should be absolutely clear. I was one of a number of association executives who were called to be informed of the process, and we were told we would be given some indication as to how the energy section of the agreement was going to unfold.

In the light of that situation—and as you observed, I think we were 24 hours or 48 hours from appearing before you—we had great difficulty. I mean the message that we brought to you today was the message we were going to bring to you then. However, had they told us at that time something that would have removed our fears, it would have been inappropriate for us to be here saying what we were planning to say, so we had to cancel that session.

Mr. Chairman: You certainly do not need to apologize, but there may

be others who probably should. Mr. Ferraro has another question, and then I will close this off.

Mr. Ferraro: Once we see the implementing legislation, I suspect we will all have something to comment on. My question is, if your fears are not allayed as a result of seeing what the implementing legislation is going to be and, indeed, your concerns as expressed today are put into motion, has the association considered, notwithstanding the political sphere, trying to inform the consumers?

Mr. Pinnington: The position that we have taken is, if we can influence legislators now to get it fixed before it becomes a problem, let us not confuse the public. We do not want to argue with the federal government through the Globe and Mail. We just do not think that is a very appropriate way to conduct communications.

So as soon as the information arrived on our table, we went down. First, we talked to the bureaucrats, we exchanged views, and then we gradually moved up to the deputy minister and then to the minister's level. We felt that if in their efforts to get this free trade agreement they maybe missed some of this detailed understanding that we were concerned about, possibly it could be fixed in time, before the formal papers came forward.

That is really what we were about and we still are about that. We purposely have not made it a public issue.

Mr. Ferraro: I appreciate that entirely and I have no doubt in my mind that you gentlemen will follow the proper business acumen in this regard. It makes sense and if I were in your shoes, I would do the same thing. But still you have not answered my question. If they have not fixed it, what are you going to do? What is the responsibility of the Ontario Natural Gas Association?

Mr. Safrance: If the legislation goes through as we perceive it and none of the problems that we have brought forward are resolved, there are still some avenues we could take. We could ensure that we have a strong and proper interface with the producing sector of the industry. We could try to ensure that they keep on top of the timing needed to ensure deliverability and to ensure reserves. We could try to get a very close, co-operative interface that would—

Mr. Ferraro: You are not convincing me.

Mr. Safrance: As the ministers say, "Supply and demand will solve everything," and we will have to work towards that. We really will.

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Mr. Ferraro: Let me rephrase the question, because it is important. Excuse me for interrupting. If you are not going to get anywhere with the government and you are saying the Canadians do not understand the ramifications and you are saying it has blown a hole in the National Energy Board, I am a little disappointed that you are not prepared to go that one step further.

Mr. Safrance: There are other alternatives. Mr. Cooper mentioned that we may have to take a second look as to what our supplies are, and maybe individual companies could minimize any impact by changing the pattern in which supply is now taking place.

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Mr. Safrance: There are other alternatives. Mr. Cooper mentioned that we may have to take a second look as to what our supplies are, and maybe individual companies could minimize any impact by changing the pattern in which supply is now taking place.

Mr. Ferraro: The reality is, I pay that damned gas bill every month or two months, whatever the case may be. You guys supply it to me. Now you are telling me that I could be in a situation where I am going to have to burn a lot of the paper that I get in my office in order to keep my family warm. Then you are telling me that if that situation exists when the implementing legislation comes, you guys are not even going to tell me that we have a problem.

Mr. Safrance: I am glad we made the point so strongly that you think you are going to freeze in the dark.

Mr. Ferraro: That is what you are saying, conceivably.

Mr. Safrance: No, what in fact we are saying is if there is a reduction, what could possibly happen is that in the northern US they will shut off a few of their generating plants that are using natural gas and switch to something else, whereas here in Canada perhaps some of our large industrials may have to be shut down to ensure adequate supply to the rest of the core.

Mr. Haggerty: Just a supplementary on that.

Mr. Chairman: I am going to have to cut that off, because I have a couple of housekeeping matters I want to deal with and we do have another witness ready to start.

I should bring to the members' attention that you have in front of you an article from this morning's Globe and Mail about US hearings on gas sales that are going on in that country right now.

I thank you very much for your presentation. Obviously, you have captured our attention and I think you have concerned all members of the committee with your concerns.

Mr. Pinnington: Thank you.

Mr. Chairman: I have already ordered a transcript of an Instant Hansard of these proceedings for use in a speech in Belleville tonight.

Mr. Villeneuve: Is this a political forum?

Mr. Chairman: Yes, we are all in politics here.

Just a couple of housekeeping matters: The committee has indicated to the chair, and rightly so, that you feel there should be some observer function of this committee at the G-7 conference in mid-June. I have made inquiries, and you have probably read about the intense security measures that are being prepared for that conference.

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What can be made available to us is participation at what is going to be called Summit Square, which I understand presently is the parking lot across the street from the Metropolitan Toronto Convention Centre. I understand there will be facilities set up there for watching the proceedings on monitors. If we wish that, we will all have to go through security checks and then we can be granted that status.

A suggestion has been made that we can also watch the proceedings on

monitors in our offices at Queen's Park. I want some direction from the committee on whether you want me to proceed any further on that.

Mr. Haggerty: Did I hear you say that you can watch the proceedings on monitors here at Queen's Park?

Mr. Chairman: I am told that most of the proceedings will be on monitors here as well, which, of course, we can do each on our own. We could set up a room here, if you like, and we could all congregate together and watch, with perhaps some input from our own Treasury officials, if you wish.

Mr. Haggerty: Why not go that way? I would suggest that may be the way it should go.

Mr. Chairman: As opposed to seeking any sort of—

Mr. Haggerty: To go through all the red tape down there—we are only going to be looking at monitors.

Mr. Chairman: Mr. Villeneuve may not pass the security check. OK. We will take that route. Did you want us to set up a room?

Mr. Haggerty: I think it should be available to every member.

Mr. Chairman: We will do that.

One other thing, and I do not ask that we follow through with debate on this point because it may take a little longer, but I have cut off hearings with the last hearing on May 29. Further requests to appear before the committee are going to have to be declined. We can receive written requests, if that is all right with the committee.

I hope we can become involved very intensively thereafter in writing the report, with the consulting report coming afterwards, in midsummer, and our having to perhaps comment on that thereafter when it comes. That report will be a better report if it includes the actual enabling legislation, which has yet to be introduced into the House of Commons, and an assessment of it.

That is the chair's suggestion as to proceeding and if there is any violent comment on that, I would like to hear it now. It would be presumed that we would be asking for additional time immediately following May 29 during the course of the House sitting week to be sitting and writing. That would be in early June. Does that make sense and does that fall in with your interests, as opposed to writing every week for two hours which would lack a certain cohesiveness?

All right. Shall we proceed to request that additional sitting time in whatever way that the House leaders are prepared to give it to us?

Mr. Haggerty: We may be sitting until at least August this year. That is a possibility.

Mr. Chairman: I am not going to get into that debate but if that is all right, then we will do that and we will work at writing this in June, get it out of the way and get on to our concerns about stage 2 of tax reform, which I anticipate will be our next issue to tackle.

Mr. Ferraro: I am just wondering, and it may be premature to some

degree, from the gist of the way the committee hearing is going, I envisage three separate reports. Is it your intent to try to get some consensus on some issues and then to have three separate reports? That is just my own personal perspective at this juncture.

Mr. Morin-Strom: That is because you are writing your own minority report, are you, Mr. Ferraro?

Mr. Ferraro: No. The point I am trying to make is, it is my understanding—

Mr. Chairman: As chair, I do not wish to comment on that at this time. I am quite cognizant of the fact that the three parties, of course—

Mr. Ferraro: Have differences.

Mr. Chairman: —have different views on the subject. Each party is going to have to deal with that in its own way. I do not want to necessarily, as chair, close the door to some unanimity on some issues.

Mr. Ferraro: No, but on the other hand, I do not want to schedule an overly generous amount of time if, in fact, the reality is going to prove that I am right.

Mr. Chairman: The Liberals may wish to caucus on that issue.

Mr. Morin-Strom: There are obviously splits in that party.

Mr. Chairman: Mr. Fisher, would you come forward, please. I appreciate your coming to be with us today. Mr. Fisher is a solicitor with Gowling and Henderson, and Mr. McLellan and I had the opportunity to hear him when he spoke to the American Bar Association in January. A copy of his brief to that association has been presented to the committee—or was it a working paper you prepared? I am trying to recall now; although I do have it underlined, so I did read it—as well as your comments to the standing committee on foreign affairs.

Welcome to our committee. Bear in mind that most members of the committee are not lawyers and I would ask you, if you would, to lead us through your views on the constitutional problems. We have dealt with them. We have heard, for instance, from our own Attorney General (Mr. Scott) on them. But we would appreciate your perspective and this is obviously going to be a major concern of this committee when it writes its final report.

I should also tell you that the New Democratic Party members of the committee apologize for their absence at the moment, but they both have other obligations which, unfortunately, are keeping them away. It is not any kind of slight to yourself that they are not here.

BARRY MICHAEL FISHER

Mr. Fisher: Thank you, Mr. Chairman, I appreciate the opportunity to appear. I am speaking from some rather hastily drafted notes, as yesterday I was supposed to appear before the Blenkarn committee on behalf of the Canadian Importers Association to talk about stage 2 of tax reform.

Mr. Chairman: Oh, we may invite you back for that too.

Mr. Fisher: So I may be back; since I missed that opportunity, I would welcome the chance to come back.

To deal with the area of implementation of the free trade agreement and the constitutional issues, in most circumstances implementation of a treaty in Canada—this agreement for Canadian purposes is considered to be a treaty; we do not draw the distinction in our law between what we characterize in the US as an executive agreement or any other form of international agreement, so I will use the term "treaty"—is usually relatively noncontroversial. In this case, however, because of the distinction between federal and provincial competence, the matter is by no means beyond any doubt.

Although I have no particular claim to constitutional expertise—I appear before you as a corporate lawyer who specializes in trade work—I want to provide a basis for my conclusion that the federal government cannot, under existing constitutional authority, by means of the free trade agreement entrench upon, by this agreement or any other treaty, areas of exclusive provincial competence under our Constitution.

I want to address briefly some of the more interesting questions that pose out of that conclusion. First, what are the areas of the free trade agreement in which the federal government is constitutionally entitled to act unilaterally? Second, what is the basis for the conclusion being challenged by legislation—the conclusion that I have reached, that the federal government cannot act unilaterally? What is the basis for challenging that particular view? Third, what would be the outcome of that?

The extent of provincial participation in this free trade agreement is based upon a number of claims and assumptions about the extent of provincial power under the Canadian Constitution. I think the key assumption which has been articulated most vigorously by Ontario is that the provinces may enjoy an effective veto over the powers of this agreement. I believe this overstates the case and is arguably, indeed probably, wrong, but one of the thrusts of my comments is to outline the basis of the provincial argument.

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The first issue I want to address concerns implementation of what are generally known as treaties. Treaties do not become automatically part of domestic Canadian law. Some treaty obligations may be discharged by the executive through an exercise of prerogative power. However, where the performance of a treaty affects private rights of citizens, involves the expenditure of money or requires alteration of existing domestic law, then a legislative act is going to be necessary.

In a unitary state such as New Zealand or the United Kingdom, that does not pose a particular problem. It is relatively easy to secure passage of legislation to perform a treaty obligation. However, in Canada, because legislative power is distributed among federal and regional legislative bodies under sections 91 and 92 of our Constitution Act, there is the possibility that treaties made by the federal government can be performed only by regional legislative bodies, which are not controlled by the federal government and, the Meech Lake accord aside, which can rarely be persuaded to act in unison.

To properly understand where the lines are drawn down the middle of the road, as Canada attempts to draw them, I want to take you briefly through a little bit of constitutional history. There is a section in our Constitution, section 132, which states that the Parliament and government of Canada have all the powers necessary or proper for performing obligations of Canada or any province, "as part of the British Empire"—and I emphasize that term—towards foreign countries, arising under treaties between the Empire and foreign countries.

Since it was not contemplated in 1867 that Canada would some day achieve a capacity to make treaties for herself, no provision was made in our Constitution for the due performance of treaties. This oversight came to attention first in 1932, in a case known as the radio convention case, a decision of the British Privy Council. As you may know, until 1949, the decisions of Canada's Supreme Court were further appealable to the judicial branch of the Privy Council.

In radio communications, the Privy Council took it for granted that the performance of obligations incurred pursuant to Canadian treaties constituted a distinct legislative subject matter, and since the subject matter did not come within one of the headings enumerated to a province, it must fall to the federal government. That was a high-water mark of federal authority.

Five years later, the issue was relitigated, and in the much-maligned but still controlling decision called the labour conventions case, the Privy Council refused to treat the implementation of treaties as a distinct legislative matter over which Parliament might claim complete and exclusive control. Rather, it took a view that there is nothing special about legislation enacted to perform a treaty, and legislative jurisdiction for this purpose must therefore be determined in the ordinary way; that is, if a matter dealt with in a treaty falls within provincial jurisdiction under section 92 of the Constitution, the decision whether or not to pass implementing legislation in the performance of that treaty belongs to the provincial legislators alone.

The policy consideration for this reasoning is that the division of legislative power set forth in the Constitution is an essential condition of the pact under which the provinces, and in particular Quebec, originally entered Confederation.

If a full treaty implementation power were vested in Parliament, it would be possible for the federal government to narrow the scope of provincial powers under section 92 through the simple expediency of contracting an international obligation in those areas. For this reason, even assuming that the power to ratify treaties rested exclusively in the federal executive, the power to implement them, that is, to live up to the obligations, is divided.

That case has caused a great deal of division. Members of the Supreme Court have indicated on a number of occasions that they welcome the opportunity to rehear it and that implementation of the free trade agreement may well provide that opportunity.

The federal argument in favour of overruling that case, which divides authority in this area between the federal and provincial governments, is that the federal government, to be an effective player in the international agreement in securing the benefits for itself, must be able not only to ratify, that is, sign, treaties but must also have the ability to perform them in full. No one wants to do business with a party that cannot be relied upon to keep its word.

With respect to the free trade agreement, the position of the Prime Minister is even more direct. His first proposition is that 97 per cent of the agreement is within federal jurisdiction. From this, a second proposition follows that the federal government has the constitutional authority to sign and implement the agreement unilaterally, regardless of provincial objections.

I want to point out to you that in this agreement there are a number of

sections that deal specifically with provincial powers. For example, chapter 6 on technical standards exempts the provinces; chapter 7 on agriculture preserves provincial marketing boards; chapter 16 preserves controls on logs, fish and beer; chapter 13 has the provinces excluded from the procurement provisions; chapter 14 excludes several services under provincial control; and finally, financial services are not applicable to provincial measures.

If the Prime Minister is wrong that the federal government has no ability, under the labour conventions case, to enforce the obligations under the agreement in the absence of provincial concurrence, Canada is exposed under this agreement.

That aside, how much of a problem are we really talking about? Most matters, such as border measures, government procurement requirements, are clearly within federal exclusive competence, but some, such as those regarding market access to grain, expenditures for agriculture, access to energy and, most specifically, wine and distilled spirits, are more problematic.

Arguably, the free trade agreement contains several provisions that could be applied directly to limit provincial authority. The examples are secondary processing of natural resources prior to export, local preferencing for provincially regulated services, provincial investment incentives and the displacement of US enterprises to create provincially controlled monopolies such as automobile insurance plans. All of these may be subject to challenge under various free trade agreement provisions.

My point here is that it is an oversimplification and probably wrong to assume that the only areas of provincial competence to be affected by this agreement are the wine and spirit pricing policies. An articulation of provincial concerns has most recently been brought forth in a speech by the Attorney General on December 15, in which he characterizes this agreement as a de facto constitutional change.

The strongest identified provincial concern is over article 103, which I will read to you to highlight, because it is much of the focus of my comments. It says:

"The parties to this agreement shall ensure that all necessary measures are taken in order to give effect to its provisions, including their observance, except as otherwise provided in this agreement, by state, provincial and local governments." I emphasize, "shall ensure that all necessary measures are taken."

Provincial laws will therefore, if this provision has any effect, be subject to challenge on the ground that they violate the terms of the agreement. Specific concerns are raised about provincial powers over natural resources and energy, particularly those laws which require upgrading and processing of natural resources.

What are the abilities of the federal government to enforce this particular provision? It can declare works and undertakings for the general benefit of Canada, it has the power to disallow and it can operate through its taxing authority. Some of these powers have not been used substantially by the federal government in a considerable period of time and are subject to some constitutional question.

Is there anything that can challenge this conventional wisdom of the split of authority between the federal and provincial governments in

implementing the legislation which implements the obligations under the free trade agreement?

One suggestion with respect to this implementation is to rely on the "peace, order and good government" provision. That is, in our Constitution, there are specific powers enumerated to the federal government under section 91, and certain powers to the provinces, specifically under section 92. There is a basket clause at the beginning of section 91 which says and other things which are for "the peace, order and good government of Canada."

The problem with that is that much of the interpretation of the provisions of the Constitution, including the "peace, order and good government," have been made by the judicial arm of the Privy Council and has severely limited the federal powers. Essentially, "peace, order and good government" can only be used where matters can only be regulated on a national level or for temporary matters such as the anti-inflation legislation or to fill a gap within federal law. Here is where the grey area becomes whether or not there is this gap.

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Another area in which the federal government will attempt to undermine provincial authority with respect to this implementation is under a specifically enumerated power called "trade and commerce." Trade and commerce is used pervasively in the United States. It underlies its antitrust legislation, for example, whereas we have had to rely on the criminal power, which has made our federal antitrust laws relatively ineffective.

The "trade and commerce" power too has been somewhat eviscerated by judicial decisions. It essentially has laid out that the provinces have the right to control matters which occur purely local in nature; that is, are intraprovincial. The federal government controls interprovincial and international matters. This has resulted in divided authority, compelling co-operative marketing schemes.

One of the areas that has given some hope, in the elaboration of this, is a concurring judgement by the man who is now the Chief Justice of the Supreme Court of Canada in a case called the national transportation case. This is what we call obiter dicta; that is, it is not law, but it is there as an indication of exactly where he would go.

He said: "Where what is it at issue is the general legislation aimed at the economy as a single integrated national unit, rather than as a collection of separate local enterprises, such legislation is properly enacted under the trade and commerce power, notwithstanding that its results will be manifested in particular effects, any one of which may touch upon property and civil rights. That is the fundamental basis of concern for the provinces. I think the distinction is between measures which are validly directed at general regulation of the national economy and those merely aimed at centralized control over a large number of local enterprises."

Where does this leave us? As I have indicated, if the question is simply whether the federal government can, under present constitutional authority, unilaterally and without provincial concurrence implement or perform its obligations undertaken under the free trade agreement, the answer based upon the Labour Conventions case is no.

When asked the more interesting question, would the answer be the same

on a rethinking of that decision, the answer is not clear. There are some strong indications that the Supreme Court would view that authority somewhat differently.

I think what we must look at, for example, is putting this article 103 against Canada's obligation under the General Agreement on Tariffs and Trade. There is a provision in the GATT similar to article 103, except that it says that each contracting party must take reasonable measures as may be available to it to ensure the compliance or observation by regional governments.

From what I have stated, article 103 says they simply "shall ensure." However, a couple of the GATT panels that have dealt with matters of provincial obligations—for example, the gold coin Ontario sales tax and the recent wine and spirits panel determinations—appear to impose obligations on the federal government for the failure of provincial authorities to enact legislation where the federal government has undertaken internationally to do that. It may be held much closer to the article 103-type standard. Even if it acts reasonably, if it does not effect the change, then it is held liable. I think that is what is going to happen under article 103. If there are areas within this agreement that are matters that fall within exclusive provincial competence, the federal government is therefore rendered liable.

There is a provision in the agreement called "Nullification and Impairment." The United States can act against Canada as a national entity by removing parallel benefits in some form or other.

I think the free trade agreement particularly impacts the provinces because it changes the context in which they may exercise their jurisdiction. The federal government argues that the agreement is international trade, that international trade is federal and that therefore its legislation would be paramount.

I think much depends upon what that actual implementation says. It will infringe upon provincial competence if it goes beyond eliminating trade barriers and begins to specify how provincial jurisdiction will be exercised. I think adjustments will be necessary to meet international competition, and this will result in a necessity for co-operation and consultation between the two powers and the courts, when asked to interpret the interests between the two parties if this is brought to a head.

That said, there are some things which are certain, but I think the ultimate conclusion is that the judicial determination of the validity of federal legislation to implement this agreement unilaterally will depend upon how far it goes, and that is a matter I would be better able to speak to once I see that legislation.

Indeed, I chair a committee of the Canadian Bar Association that will be looking specifically and in detail at the legislation, in part to ensure that the federal government is not, by means of implementing legislation, infringing upon areas of exclusive provincial competence.

Those are my comments. I would welcome any questions.

Mr. Chairman: Is that an actual mandate that the bar association has given to you, to try to help preserve—

Mr. Fisher: Yes.

Mr. Chairman: Well, good for them. I am glad I pay my bar association fees.

Mr. Ferraro: It is only the federal members who have problems with it.

Mr. J. B. Nixon: Mr. Fisher, I guess my question follows from the presentation you have made. In your reading of all the trade literature and your knowledge of the GATT, is there a process that a national government which is a national government of a confederation or a federation should engage in to avert being in the position the federal government of Canada may now find itself in, in other words, having to unilaterally impose legislation and have that declared unconstitutional?

Mr. Fisher: I think as a matter of international comity there is no requirement that the federal government do other than those things which are within its capability of acting. As a GATT obligation, under article 24(12) the federal government must simply do what it is reasonably capable of doing to bring its subnational units on board with its international obligations.

As I mentioned, the panel determinations seem to overlook that best-efforts kind of undertaking and are in fact saying that if the federal government enters into a treaty that has international obligations, and it simply happens that as a matter of the domestic Constitution the federal government does not have authority to work in that area, then it will be liable in the GATT sense, as a co-operative exercise and the country's—there is no policing authority in GATT. There may be; that is the process of discussion that is going on under the Uruguay round right now. But GATT was never meant to be other than a co-operative kind of venture. Therefore, there is no authority for them to act in that manner.

Mr. J. B. Nixon: I guess my conclusion from that is that there are really two political solutions for the federal government in the future. Either they can bring the provinces on side prior to signing an agreement, which they failed to do here, or they can bring them on afterwards, and I guess that remains to be seen.

Mr. Fisher: That is right. I am sure the federal government's view will be that it has done what it could by involving the provinces in the negotiating process as best it could. Obviously, the provinces, it will say, could not be at the bargaining table because only one person can speak. The big stick they ultimately carry is that there are powers of the federal government to ensure that the provinces live up to their obligations, unless those particular obligations are upheld by a court to be matters within provincial competence and therefore disallow the federal government.

For example, if the federal government were to enter into a treaty over a matter that is clearly within provincial competence, simply entering into an agreement could thereby deprive the province of any power of acting over that area. The courts in this country—in England, interpreting it for the best interests of this country—have attempted to limit the powers of the federal government to do that. If that were attempted, there would not be great hope in the federal government that it could accomplish that.

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I think what they are saying in this agreement is that there is a fundamental weakness in our Constitution. It does not give Canada an external treaty-making power. The Constitution was not intended—we were always intended to be a colony, and therefore section 132 is essentially moribund and does not mean anything any more.

Therefore, the federal government can only act in those areas in which it has that exclusive authority. The courts will be there, now particularly the Supreme Court of Canada, to defend the rights of the provinces. As a matter of political reality, they may be able to exercise some authority through taxing and other powers, but as a legal matter, they cannot entrench upon areas of provincial competence simply by enacting a treaty in those areas.

Mr. Ferraro: Just one question, Mr. Fisher: Would you clarify for me, in the situation where you have an international treaty such as the free trade agreement, which has precedence, a federal act, i.e., the National Energy Board Act, or the FTA, solely within the federal jurisdiction?

Mr. Fisher: Because the treaty, the FTA for example, only exists with respect to the United States, it creates obligations on Canada with respect to that external power.

As I mentioned at the outset of my comments, the treaty, unto itself, has no authority of law in Canada. The only reason it will have authority will come from this implementing legislation. Right now it is, in effect, an executive agreement of the executive of the federal government. In order to sign this agreement, Prime Minister Mulroney does not even have to present it to Parliament.

There has been a habit of doing this, although in this case, he did not want to have the sanction of the upper House because he would not have got it, so he simply went ahead on January 2, 1988, and signed that agreement. But for this agreement to come into place, there is a provision—I think it is article 2105 at the end of the agreement—that says this agreement will take place on January 1, 1989, at such time as there is an exchange of notes between the two countries to say that all the necessary implementing legislation to bring it into force will be in place.

The federal government has to take this amorphous treaty, which has no status in Canada as law, and enact legislation that will bring it into place. It can do it by a number of different approaches. It could propose an amendment to the Customs Act, to the Export and Import Permits Act, to the Special Import Measures Act, to a number of individual federal statutes. Each one of those may be subject to attack, because for that one particular statute, the proposed amendment may entrench—I think what is more likely to happen is that we will see an omnibus kind of wrap-around piece of legislation because the federal government will be in a stronger position to say that this entire package of legislation implements and brings this agreement into force. It will be much more likely to withstand constitutional challenge by the provinces or by anyone else if it is in a more comprehensive package. That is more likely to happen.

To get back to your question, subsequent legislation will override previous legislation if it deals with the same subject. When this treaty is proposed in either this omnibus package or individual pieces of legislation, those will deal with and specifically repeal prior levels of federal legislation.

The issue, of course, is not that the federal government cannot, by enacting federal legislation, overrule provincial legislation by that act alone. What may happen is that if there is an area that does not fall specifically within section 91 or section 92, then you get into the fight. If there is provincial legislation that is valid legislation, and if there is federal legislation on the same subject matter, then a constitutional doctrine

known as paramountcy will apply and the federal legislation will override provincial legislation, if the federal government is not acting beyond the scope of its authority.

When this legislation comes into place, assuming that it is validly within the federal sphere, it will override preceding and contradictory federal legislation.

Mr. Ferraro: They would have to, if it is in the context of an omnibus override, I guess—this may be very simplistic, but will they say this agreement has precedence over any and all areas that may be considered in separate pieces of legislation or will they have to specify?

Mr. Fisher: The agreement itself will not override legislation. The legislation which brings the agreement into force—

Mr. Ferraro: The implementing legislation.

Mr. Fisher: —will override other legislation.

Mr. Ferraro: But will they make, for example, a general statement in the implementing legislation?

Mr. Fisher: There will be, I am certain, a preamble to the legislation, particularly as it is omnibus legislation, indicating that it is for the purpose of bringing into force in Canadian law a free trade agreement entered into between the two governments on such and such a date. That, as a preamble, is a method of interpreting what the legislation means, but preambles unto themselves do not create legal obligations and therefore are not the operative provisions.

It is like in a contract. There are a lot of lawyer "whereas" clauses leading into them. The "whereas" clauses provide the foundation for the contract but do not create the obligations themselves; so too with legislation. Those provisions would not be controlling over or creating provisions. It is only the actual legislative act itself that says, "The following acts will be changed in the following manners," that will provide the basis for the change from either preceding legislation, or enactment of new legislation if there is no previous legislation.

Mr. Pelissero: I would just like to pick up where you left off with respect to the comprehensive legislation, the wrap-around legislation you talked about. What type of legislative process do you feel the Prime Minister will go through? You talked about getting Senate approval. Obviously, he would not have got it to sign on January 2.

Mr. Fisher: Yes.

Mr. Pelissero: Does he have to go through the same type of process in terms of Senate approval in order to make the legislation or the changes legitimate?

Mr. Fisher: Yes. Any law enacted in Canada must go through the two houses, and we have seen already one preamble to this duel—

Mr. Pelissero: The drug patent bill.

Mr. Fisher: —the drug patent legislation. As a political matter—I

will preface anything I say here that when I get into politics I speak with no particular authority—this will be an area where legislation will be presented to the House and it will pass the House. It will then be required to go to the Senate.

The Senate will either approve and it will become law when the Governor General, acting as representative of the Queen, declares that legislation is now in force, or more likely, particular pieces of legislation, either parts of the omnibus legislation or the specific individual pieces of legislation themselves, will be reviewed by Senate committees, sent back to the House in the same manner we have seen on other legislation and the battle will be waged.

Mr. Pelissero: On that, take a scenario where legislation is introduced, is passed in the House and goes to the Senate. The Senate either says, "We like it," "We do not like it, or, "We like parts of it," and sends it back. Is there anything in the current free trade agreement that allows for an implementation deadline longer than January 2, 1989, in terms of enactment?

Mr. Fisher: No.

Mr. Pelissero: What happens if either on the American side or on the Canadian side we do not have the necessary legislation in place?

Mr. Fisher: The treaty will not take effect until that legislation is in place or until the federal government can give a note to the United States government that all the legislation is in place. That does not set a legislative timetable. What it says, I think, is that the agreement will take place on January 1, 1988, or such time as the legislation—

Mr. Pelissero: Nineteen eighty-nine.

Mr. Fisher: I am sorry. Yes, we are already a little late for 1988.

Mr. Pelissero: Yes.

Mr. Fisher: Such time as the legislation is actually done. Of course, there will be a political problem. A number of different political scenarios arise, of course, both in Canada and the United States, depending on when this legislation is actually presented. There is the present looming battle over the omnibus bill and the veto in the United States and what happens there if they run out of legislative days, because the United States has a very precise timetable for the so-called fast-track procedures and we do not.

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Mr. Pelissero: Just two quick points: One, you may care to comment on what happens if we have gone through a process of first the House ratifying it and then the Senate ratifying it. Take that scenario. Is it at that point that if Ontario decided to launch a constitutional challenge, it would do so, or when would it do it?

Mr. Fisher: It can happen in either of two scenarios. There could be a reference to the Supreme Court of Canada, which has been done on prior pieces of legislation. When the legislation is proposed, the governments may ask, "Is this subject to constitutional challenge?" The difficulty is that until the legislation is in its final form, the question is still somewhat amorphous because the court is called upon to act with respect to legislation

that is merely in a draft form. So there is the possibility the matter would be referred to the Supreme Court for its views on the constitutional validity of various provisions.

The prevailing view among constitutional scholars appears to be that this would not give the result that is desired. The more likely scenario is that the legislation is enacted, the treaty comes into force and the provincial governments or whoever has the ability to bring such a case—

Mr. Chairman: The bar association.

Mr. Fisher: Perhaps. I will make no comment on whether we have the authority or standing to do that. Then at that point the legislation itself, as enacted and now enforced, could be challenged.

Mr. Pelissero: I have some grape growers in my riding who may want to be in place to challenge that, but that is another matter.

You talked about the federal government having means and mechanisms basically to extract either compliance or a price from the provinces. Let us take wine as an example. We have gone through a court challenge now and the court has said, "Yes, the federal government has the power both to negotiate and to implement the legislation." We in the province still say, "Forget it; we are not going to go along with it." The United States has been able to say, "OK, it is costing us, let us say, \$10 million a year in a dollar figure." Would the federal government be able to say, "OK, we will just take that \$10 million off another transfer program and identify that as payment for noncompliance"?

Mr. Fisher: As a political reality, I think that is a realistic possibility.

Mr. Pelissero: Constitutionally, could they do that?

Mr. Fisher: Constitutionally, they control the distribution and reallocation of taxes to the provinces. Therefore, there is no constitutional limitation saying that they must specifically provide the province with X dollars per annum. I think the answer is, where there is a will, the federal government will find a way.

Mr. Pelissero: In closing, it is a long way from over yet.

Mr. Fisher: It is along way from being over yet.

Mr. Villeneuve: Mr. Fisher being of the legal profession, I recall well last summer that some people were going around the province saying: "Unless this happens, no deal. Unless that happens, no deal." We heard that quite a lot last summer. Shortly after September 10, there was a very quiet period of time. What was the legal profession's opinion as to the powers of the province in this free trade agreement, at that time?

Mr. Fisher: I would be reluctant to speak on behalf of the legal profession. Any view I am giving, I must say, is almost exclusively my own. It is my view that statements made prior to the implementation regarding "no deal if," were largely negotiating tactics. As a legal matter, there was no foundation upon which anyone could object to the preparation of the text of an agreement on the basis of one provision being in or out. The agreement, as it came out in this form, essentially is the result of a detailed negotiation, a

tradeoff of certain areas of competence against others, and the decision came out as a whole.

Nothing in this could have been stopped or was subject to legal challenge unto itself prior to that time. Until we saw the deal, nobody could say very much. One of the things I am saying to you is that until I see the legislation, there is not a whole lot—our committee of the bar association sat down to look at this agreement, and it has been our determination that we really should not be making submissions on what is essentially an economic and political document at this time. We have not the expertise to add substantially to that process. So anything that went on last summer was not a matter over which lawyers could authoritatively speak. That does not mean they would not have. I am sure many did.

Mr. Villeneuve: Yes, some did.

Mr. Fisher: All I am suggesting is that you will hear them speak more loudly, with greater authority, once the legislation is tabled.

Mr. Villeneuve: You used the word "negotiations." I guess you use it in the context of trying to put pressure on those who were writing up the legislation or drawing up the facts and figures. At that time, it was a very unclear situation as to whether there would be a deal at all. When you used the word "negotiations," immediately the thought came to mind "negotiating to get votes." I guess maybe it worked, to some degree.

Mr. Fisher: Also, I think we should take into account that this agreement, in its final form, did reflect a large number of the objections, some of them legal, and others.

For example, there are the rules-of-origin provisions, where people said, "If everything, to get tariff-free status, has to be originated in one country or the other, what do you do with the Mexican in-bond plant facilities where goods are taken from the United States, brought across the Mexican border, assembled there at very low labour rates, then brought back in and are imposed a duty only on the increased value from the labour?" We said, "We can't compete with that."

If those goods were US-originated, now there is a very specific provision which says that any processing of goods from one country or the other will disallow that status. So what would have been a legal and economic problem, I think was avoided because the negotiators were well aware—matters were leaked. People were watching this whole negotiating process very closely. Matters became a concern. There were a lot of differences between the preliminary document that came out in October and the document that was ultimately led for signature later on. The memorandum of understanding or the points in principle were altered significantly by a process, legal and other, to change particular provisions in this agreement.

Now the agreement is in place and nothing I or any of my colleagues will do will change that agreement in the United States or in Canada. Where we will have some impact and where the agreement ultimately has meaning is in how the legislation and the regulations, how this agreement, is going to be interpreted, will be put in place.

Mr. Villeneuve: I have a couple of more questions.

On a specific item, the auto pact, it is my understanding that because

of the free trade negotiations and the undertakings in that agreement, the challenge, which was very possible, the one-year notification that the auto pact could be dismantled, is no longer there. Could you give me a legal thought on that as it now stands regarding the free trade agreement and the auto pact?

Mr. Fisher: My thought is that the free trade agreement tends to entrench the auto pact in a more solid manner. Of course, the free trade agreement itself is something that can be walked away from by either party on relatively short notice. The auto pact could be walked away from by either party. Neither party is going to do that. As a political, economic reality—threats aside—it just was not going to happen, and I do not think it is going to happen under this free trade agreement, once implemented.

The auto pact is in the best interests of both parties, and notwithstanding particular concerns expressed over where the trade balance is in any particular month or year, it is unlikely, unless that trend was long-standing, that either party would have the wherewithal, politically, to pull the auto pact. I think, having now incorporated it within a larger agreement, it is much less likely, both as a legal and as a political matter, that any exercise would be made of the ability to withdraw that particular agreement.

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Mr. Villeneuve: We have auto workers who made a presentation to this committee in Washington a month and a half ago who are dead against the signing of this free trade pact, and their ultimate aim is to dismantle the auto pact as soon as the free trade agreement is not signed, goes down the pipe or is done away with. That is not a hidden agenda; that is what their aim is, because they feel this auto pact is very much slanted in Canada's and, in particular, in Ontario's favour.

Mr. Fisher: Yes.

Mr. Villeneuve: You say that might not have happened without the free trade agreement?

Mr. Fisher: What I am suggesting is that the free trade agreement has put within a broader framework the regulation of all trade between Canada and the United States; it creates what we call rule diplomacy as opposed to power diplomacy; it gives Canada an ability to have its interests determined in a number of different forums. The auto pact was an attempt to regulate a particular sector of the trade between Canada and the United States, a matter of fundamental importance, obviously, to the province of Ontario.

There is not, I do not think, a hidden agenda from all of this to do away with the auto pact. If the free trade agreement were to fail for any reason, then the powers that be can use that as a lever to alter, amend, renegotiate or, in fact, ultimately walk away from the auto pact. That could still happen, but it will not happen or it is much less likely that anyone would seriously consider even proposing a substantial amendment to the auto pact when it is incorporated within the broader scope of the free trade agreement itself.

Mr. Villeneuve: Interesting comments, Mr. Fisher. Thank you.

Mr. Haggerty: Mr. Fisher, in your brief this morning to the

committee, your conclusion is that from a constitutional point of view the federal government does not appear to have clear authority under the existing interpretations to compel provincial governments' compliance with Canada's international obligations under the free trade agreement without the co-operation of the provinces. I am reading from a document, Constitutional Jurisdiction, by the standing Senate committee on foreign affairs. There is a name there, Mr. Fairley. Is he a partner in the firm you represent here this morning?

Mr. Fisher: Yes, he is a colleague of mine.

Mr. Haggerty: Mr. Fairley made the point that since the federal government is confident it has the jurisdiction to enter into and implement the agreement, he said it should simply proceed with the implementing legislation. Of course, we have not seen any of the legislation, but he goes on to say further: "It is also conceivable that private parties could commence actions in the superior courts of the provinces or in the Federal Court challenging the constitutionality of the agreement or its implementing legislation. If such reference is made or action commenced, the federal government could then decide whether to expedite the process by referring the agreement directly to the Supreme Court."

My interpretation of Mr. Fairley is that, really, the government of Canada can circumvent the House of Commons and the Senate with legislation. It is the decision of the cabinet to refer it directly to the courts. Am I correct on that?

Mr. Fisher: No.

Mr. Haggerty: No? What does he mean by that, then?

Mr. Fisher: We are operating at two different levels. What I am saying—and I do not think Scott Fairley and I are disagreeing about any of this—is that under existing constitutional interpretation a treaty that encroaches upon provincial competence cannot be enacted through legislation unilaterally by the federal government. The legislative side has to go through the House of Commons and the Senate. So laws are enacted, of course, by those bodies.

A reference to the court: Courts do not pass laws; they interpret them, of course, and the reference would be made as to whether or not the implementing legislation to bring this free trade agreement into place is within the power of the federal government. It would look at the specific legislation and it would also possibly reconsider the principle which is the foundation of my comments; that is, the labour conventions case, which draws this distinction between federal and provincial authorities.

Our ability to act has been questioned by constitutional scholars, Mr. Fairley among them and by members of the court. Indeed, one of the members of the judicial wing of the Privy Council that wrote that decision—the rule was that they had to be unanimous in their decisions; there is no allowance for dissenting views—in a subsequent speech indicated that he disagreed with the conclusion. So there are a number of people who think that the labour conventions case is a bad decision.

If we are to go on a reference or if the legislation were specifically challenged, that particular case authority, which is now the judicial law in Canada, may be overturned. If it is, then the legislative act that implements

the legislation may well be determined upon principles which are different than they are right now.

What I am saying is that under the labour conventions case principle, federal legislation to implement a treaty which entrenches upon provincial concerns is invalid. There is some questioning of that. That is the law as generally agreed right now, but a lot of people criticize that judicial interpretation. By reference to a court, the federal government or indeed the provincial governments may bring that about either by reference or by specifically challenging the legislation when enacted to question that principle, and if so, that legislation may be subject to a differing view based upon what the Supreme Court says is the government principle, whether labour conventions remains good law in Canada or not.

Mr. Haggerty: The standing Senate committee on foreign affairs goes on to say in the summary, the last paragraph on page 27 of the document: "Concerns have been raised that article 103 of the free trade agreement—which requires the parties to ensure that all necessary measures are taken in order to give effect to its provisions, including these observances, by state, provincial and local government—goes beyond article 24.12 of the GATT and may compel the federal government to use extraordinary powers against the provinces."

I am a little bit concerned about that. We have another agency there, the GATT, that comes into the picture. The threat is that the federal government could use extraordinary powers against us. What would you interpret that to mean? What powers do they have? What do they have back there that allows them to hold a club over the heads of the provinces and that is it; "It is either our way or no way at all"?

Mr. Fisher: They have taxing powers, principally. They have the ability to declare that these are matters in the national interest and they have an ability constitutionally to disallow legislation.

The latter two really have fallen into constitutional disuse. Although the powers are there, they have not been used and they themselves may be subject to constitutional challenge. If you have something that you have not used for a long period of time, it may be considered that the right no longer exists.

Essentially, the federal government has those powers and I have indicated in my presentation that the panel rulings which have dealt with Canada under GATT 24, section 12, have tended to view it much the same way and I think that was in the back of the minds of those people who put article 103 into this agreement. The United States clearly demands this because it does not have the problem. They can act, because of their Constitution, in a manner to implement legislation and override states' concerns.

What happens in many international multilateral-type agreements are what is called a federal state clause goes in. That is, the sale of goods convention for example, the reciprocal enforcement of arbitral awards, the New York convention, all have provisions in them which say that the federal government can act only in areas within its competence. So it does not bind the federal government to use its heavy hand to bring the provinces on board.

We have a very decentralized kind of federalism. Canada has one of the most decentralized federal systems in the world. In recognition of that decentralization, the federal government, as part of its multilateral

obligations, will say, "We will act only within the areas in which we have competence." That does not really apply in a bilateral agreement of this sort.

The United States, as part of the negotiating tactics, said: "Look, federal government of Canada, we are entering into an agreement with you that gives you a substantial benefit. We want to make sure that it is not going to be undermined by the provinces undoing everything that you have agreed to at the federal level. So you will ensure that the provinces will comply."

As a legal matter, the federal government has no ability to force the provinces to comply. As a political reality, they have a number of different ways in which they can accomplish that objective. They are relatively confident that if this matter were to go to constitutional challenge, the labour conventions case would either be overturned or this specific agreement—as the Prime Minister says, if it is 97 per cent within federal competence, then it is a matter over which the federal government has that authority—would prevail on constitutional challenge even without doing the labour conventions principle.

So they have that ability and they are confident they will be able to exercise it. Even if the law remains the same, this particular agreement permits them to do it.

Mr. Chairman: I think I hear us being summoned by a bell to the chamber. Mr. Fisher, I want to thank you very much for taking the time to come here and be with us. I am cognizant of the fact that a lawyer's time is normally worth money and I appreciate your imparting your knowledge to us as a result of our request.

I am reminded of a debate I was involved in on this topic at York University a few weeks ago. Afterwards, David Crane of the Toronto Star said to me, "I guess the constitutional issue is the sleeping issue in the trade debate," to which I responded, "Yes, I suppose it is." I expected him to perhaps write something about it, but he did not. Unfortunately, it is the sleeping issue that may well awaken when it is too late.

In contrast to that, I noticed in yesterday's Toronto Star there was an article about some American congressmen who were raising their constitutional issues with regard to the Alaskan crude oil shipments to Canada. The assumption is that is going to be brought to our attention for adjustments. I do not know whether they would be assuming that we might bring our concerns to the Americans' attention for adjustments. Obviously, that is not the case.

Thank you very much for coming and helping us find our way through this interesting but very complicated issue.

Mr. Fisher: Thank you for your patience in listening.

The committee adjourned at 12:03 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, MAY 19, 1988



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Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

Individual Presentation:

Graham, Dr. William C., Professor, Faculty of Law, University of Toronto

From the Ontario Coalition of Senior Citizens' Organizations:

Sugarbroad, Stan, President

Frank, Mark

Purdy, Sheila

Fields, Harry

Corms, Bill

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, May 19, 1988

The committee met at 10:05 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: The committee will commence as if all parties were here. We will assume that Mr. Mackenzie is here and Mr. Morin-Strom is not here yet. We will commence the meeting since I see a quorum.

Professor Graham, Mr. McLellan and I were present in the audience in Washington in January when you spoke to the American Bar Association. We were impressed with what you had to say, and that is basically the reason we have invited you here today.

Members of the committee have your paper that was presented at that time, and there are extra copies. But, as you indicated before, we started. It is somewhat technical and it is also based largely on the preliminary October documentation as opposed to the actual agreement. Bearing that in mind, we appreciate your taking some time and coming with us today.

We would appreciate your perhaps leading us through some of your thinking with regard to the agreement, particularly the dispute settlement mechanism, and then we hope you will entertain some questions from the committee.

Dr. Graham: Thank you. I have never appeared before a legislative committee before, so you will excuse me if I am not too familiar with the procedure. But I did think—

Mr. Chairman: It is quite relaxed and informal, until we get you saying the wrong thing, and then we try to stab you.

Dr. Graham: That will be helpful, I assure you. You will probably be far less severe than the students up at the law school were. They have no hesitation whatsoever. Their object in life is to embarrass professors, so you will probably be at least more courteous than that.

I thought it might be helpful if I did lead off with a bit of a background of where my thinking comes from that goes into the paper. Perhaps I should start by saying that my experience as a practising lawyer was in doing a lot of international transactions, until six years ago, when I left my practice to go to the University of Toronto to become a full-time professor, where I teach international trade law, the law of the European Community, and for some years taught public international law.

So I am coming at this, if you like, as a public international lawyer with some interest in the way in which international trade matters are resolved and also the way in which treaties of economic integration operate. I think we must bear in mind that the free trade arrangement is largely a treaty of economic integration between our two countries, and I start from that.

Looking at the dispute resolution mechanism that is in it, I think we

also have to bear in mind, obviously, that this is an international agreement. It is thereby distinguished significantly from dispute resolution mechanisms in the normal court sense that we are familiar with in the domestic context. It is important to underline, of course, that really, from an international law perspective, first, there is a big difference between public international law and domestic law. In domestic law, you are the Legislature, you set the rules, you have got a court out there that will interpret them and you have got policemen who can enforce them.

In international law there is no Legislature. The United Nations is just a talking place for diplomacy. There is no court such as we know it, because even the International Court of Justice has no compulsory jurisdiction, and obviously there are no effective sanctions in the form of policemen to enforce the laws if one of the parties really wants to break it, unless you are prepared to go to war or something of that nature, which is rare.

So it is a very different type of system. In any international legal system I think we have to bear in mind that we get different types of dispute resolution which reflect that much looser system. If I could just suggest, you get two different types. First is what we would call the International Court of Justice, which hands down generally what are called binding decisions, but they are arbitral in nature in the sense that the parties consent to go before it. You may recall that recently, for example, the United States refused to go on the Nicaragua case. There is nothing you can do about it, so it is a consensual system.

In international economic matters it is also consensual, but if you compare, for example, the way in which the International Court of Justice operates, handing down binding decisions that the parties have agreed in advance to accept, with the way in which the General Agreement on Tariffs and Trade operates, having a panel series of decisions which I would call more like a conciliation system, where the parties go to a panel and they say, "Look, here is our problem," there are a lot of political negotiations going into it, and the parties go there. The panel considers the issues and comes back with a recommendation to the parties, which they either accept or do not accept. Then that goes to the contracting parties as a whole, which may reject or accept the panel's decision.

So that is what I would call a very loose system of dispute resolution mechanism, and very political. It does not work in areas where the rules are contested, and we know that. For example, you are probably familiar with the agricultural problems with GATT. The parties just will not accept the rules, and so they do not accept the dispute resolution mechanism; it does not work very well. It also presently has a lot of technical problems. It is very slow when you have some issues. So it is a subject matter for substantial reform in the course of the Uruguay round, which is presently going on.

You could compare that, if you like, with a system like the European Community, which has a very tight legal system with a council, a commission which enforces the agreement and a court which interprets it and hands down binding decisions. They say to the parties that cheat, if you like, "You have to adhere to it," and the commission has powers to enforce it.

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In this agreement, what I am interested in is, on a continuum from the EC model, which I would call a tight and very effectively enforceable model, to the looser GATT model, where does this dispute resolution fit? How does

that correspond to the needs which we require for an effective agreement, if in fact it is going to guarantee market access to the American market, if that is the purpose of the agreement? That is where I am coming from in terms of the public international law analysis and that is very much behind some of the things that are in my paper, which you have already had a look at.

If we turn to the agreement itself, I suggest, as I have already said, that this agreement produces economic integration and, as a result, increased mutual dependency between Canada and the United States. As a result, the agreement itself requires comprehensive and mutually acceptable rules and an effective dispute resolution mechanism. The Prime Minister made that point on many occasions in his speeches. Various of our officers at the embassy in Washington have made the same point. It partly arises because of the nature of the United States legislative system.

If you have had an opportunity to look at this morning's Globe and Mail, you may have noted, for example, that already the United States is proposing legislation to implement the agreement which is changing the nature of the access to subsidy, the procedures for challenging Canadian goods coming into the American market which will make it easier for American companies or Americans to challenge the entry of Canadian goods based on subsidies. It is really the upstream, natural resource subsidies problem, along with the softwood lumber type of thing.

Because of the nature of the American legislative system, which is very diffuse, there is no guarantee you will get a deal with the administration if the Congress wants to play around with it when it comes to legislation. Of course, that is a concern of ours for the legislation here, and that is one reason we need a very strong and effective dispute resolution mechanism.

Otherwise, the problem is that what we will have is an illusion. We will believe we have access to the US market, but in fact we will not have that access because we will be harassed by these trade remedy laws, and the goods will not get across. If there is no effective dispute resolution system to deal with that, nobody is going to invest in plant and equipment in Canada to ship goods to the United States. They will invest in the United States and ship them back here across the tariff-free frontier, and the agreement will not have the effect that it was intended to have. It will have the totally reverse effect. That is why this is such an important issue, obviously, and that is probably why you wanted to hear evidence on it before the committee.

We can look at the free trade agreement itself and the types of dispute resolution in the agreement. I have distributed to you a sort of schema, which sets out the three different, primary types of dispute resolution mechanisms, which I will talk about this morning. I apologize to you. I do not know what the origin of this document is. I think it is federal government. It came with one of the explanatory documents I got explaining the free trade agreement.

Mr. Chairman: It is suspect.

Dr. Graham: Well, I do not know whether it is suspect or not but I think it is accurate, in any event. I think it is helpful in looking at it just in terms of focusing in your minds what happens.

Basically, there are three types of dispute resolution mechanisms in the free trade agreement. The first is what I call the general system, which deals with the commission. That is chapter 18, and I will come back to that.

The second is a specific system in chapter 19, which deals with the

problems of antidumping duties and countervailing duties. That obviously was inserted because we have had so many recent problems in that area.

The third I would bring under an umbrella clause which I call "others." That really is a host of issues which most people have not looked at. But there are, for example, throughout the agreement all sorts of little dispute resolution mechanisms. For example, in agriculture, in article 708.4, there is sort of a special type of system for government procurement. There is a bid review authority provided for in annex 1305.3, which is totally separate from the commission and everything else. The immigration provisions have dispute resolution mechanisms in them. The architecture chapter in services provides that there is a dispute resolution mechanism between the various architectural bodies in the two countries.

You can go through the agreement. I think somebody identified about 11 different chapters which have different little isolated, discrete, dispute resolution mechanisms, apart from the big two. Then, of course, there is also an area which I think it is interesting to signal at this point; that is, the financial services chapter has no dispute resolution mechanism in it at all. I think that is significant because it indicates that when you get to where the United States is extremely hesitant to surrender sovereignty in a very sensitive area, you will not get the co-operation.

My understanding from speakers I have heard at other conferences I have attended is that we have no dispute resolution mechanism in the financial services chapter because the American Treasury took the position there was no way that it was going to turn over any decisions that would relate to US monetary policy. Once you get into financial services, you are affecting the money supply and other things, fiscal issues. They were not going to turn over to an international or binational panel any way in which their decisions would be reviewed.

So that in fact is just left that the parties will discuss any problems that arise under that chapter. If the discussions do not go anywhere, there is no referral to the commission or anything. I think it is a good indication of the limits to which parties are prepared to go in the dispute resolution mechanism.

When we turn to the dispute resolution mechanism in terms of its technical issues—and I do not want to go into too much detail here, because I will leave that for the questions, if you like—we have two different types of dispute resolution mechanisms dealing with antidumping duties and countervailing duties. They are on two of the three pages I have distributed to you. If you look at them, basically, they deal with two different types of situations.

One is when a local authority, either Canadian or American, makes an antidumping duty or a countervailing duty determination. Previously, that has been subject to appeal, in Canada to the federal court under article 28 of the Federal Court Act, sort of a judicial review procedure, and in the United States through its various tribunals, in conformity with the national standards that apply for judicial review.

What has been provided in this agreement is that instead of going to the national court procedure, one will go to a binational panel which will basically make its decision on the same basis that the national court would have. In other words, it will apply both the domestic law and the same rules or standards of judicial review that it would have applied as if it were sitting as a national court. That is the way that is going to work.

The theory is that will remove the possibility of political motivation in the court process. Of course, I think really it is addressing a nonissue, because nobody has ever said that the American courts or the Canadian courts, when reviewing, say, in our case, the Canadian Import Tribunal's decisions, is politically biased. The political bias problem lies at the lower level, in the application by the administrative officers of the Department of Commerce in the United States or the Department of National Revenue in our case, or perhaps in some form of political bias in the Canadian Import Tribunal or the Court of International Trade in the United States. That is where the problem probably lies.

In any event, there is this sort of binational review, which has the technical advantages that it is faster than present appeals, it is cheaper, to some extent, for the parties if the governments get involved in it, and there is a good selection procedure for panels.

If you look at that system, it is definitely a step forward from what we have today. There is no question about that. But it leaves, unfortunately, a big, gaping hole; that is, the problem is we have not decided what the rules are going to be in terms of subsidies and definitions of subsidies for Canada-US trade, and that is not going to be decided for the next five to seven years. So the dispute resolution mechanism, without having a good handle on the rules, does not mean a lot. That is a serious problem with it.

My own personal view is that now that we are into the Uruguay round, we will end up getting the same subsidies and antidumping duty rules that come out of the Uruguay round. We probably will not do much better or any differently from that, so we will have to see what they look like before we can understand how the whole system is going to operate.

The next aspect of review that comes into that area is this very interesting and very innovative provision for review of legislation which ensures the conformity—to make sure the legislation conforms with the GATT—with the antidumping codes and the free trade arrangement.

There again, the problem in this area lies not so much in the procedures, which are definitely a step forward, but in the usual thing of international law: What is going to happen if the other party does not comply? There, you will see, we get an opportunity to enact mirror legislation or we can cancel the agreement. I will come back to that, because that is ultimately what we have to do if we have a problem with the other dispute resolution mechanism too.

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So then I will turn very briefly to the third and last point I want to make and that is the general dispute resolution mechanism. That is what I talk about in my paper that you have before you, in terms of the role of the commission. There again, I think you have to bear in mind that there are various steps to this procedure. You can have consultations, working groups, all sorts of things which lead up to that, and hopefully conciliation and hopefully if you like, it will be resolved before it gets to a need for a panel or arbitration.

You will see that what they have provided for in this agreement is that the commission can—and bear in mind the nature of the commission. It is very clear from article 1802 that it is a political body which operates on consensus. On contentious issues, you are going to have to have both parties

basically agreeing to make anything work.

It is not a sort of an international thing like the commission in the European Community which is independent of the parties. The commission is the two parties. If they are not going to agree, then for example it provides here that they can send it either to arbitration—and I will come back to that in a second—or to a conciliation panel. If they are completely at odds, they are not likely to be willing to send it to arbitration because they are going to be nervous about the result that they are going to get. And that is similar all the way along the line when it comes back to them.

The theory is that the commission can decide, bearing in mind it is the two parties really, whether or not to send it to arbitration. If it is arbitration, it is presumably then a binding decision which is handed down, which must be implemented. In the event it is not implemented, then the complaining party has a right to suspend equivalent benefits and that is the end of it. That is the theory of the system.

Now, an interesting observation on that is that the agreement has provided that in one area there must be binding arbitration. That is in the case of the application of safeguards in the United States system. On safeguards, if I can diverge for a moment, if you would like me to just go into the problem of safeguards—countervailing duty and anti-dumping duties apply to what we might call unfairly traded products. Those are products that have been given a subsidy or have been dumped. That is unfair trade and so you are entitled to take retaliatory action to it.

Safeguards come under article 19 of the General Agreement on Tariffs and Trade and they apply to fairly traded goods, but just those which cause an enormous disruption if you like, to the local manufacturers and to the local economy. So there is a higher standard of economic disruption exacted before a country can apply safeguards, which are quotas really to imported goods, than there is in the case of countervailing duties and anti-dumping duties.

Mr. Chairman: Would shakes and shingles be one?

Dr. Graham: No, shakes and shingles were not. That was just a complete choice by the United States to put on a duty because they were not covered by the GATT rules and so they were able to slap on a tariff. For some reason they were not tariff-bound and then we retaliated with that crazy thing on computer stuff.

Mr. Chairman: There is a section in their trade act that permits them to do that at will though. Section 301?

Dr. Graham: That is right. We are talking about section 301 at the moment. That is quite right. But that is not quite at will though. The way section 301 works—and we have the same one—is that it reflects what is called article 19 in the GATT, which says—and I am improvising here because I do not have the article before me—in the event of an unforeseen, an unforeseeable and substantial or very important influx of goods which cause serious injury to local manufacturers, a country can take a limited form of special action to restrict them.

Canada has often done that in the case of textiles coming from underdeveloped countries and where we have put on quotas. We have done it in connection with Canadian manufactured shoes coming from Italy to protect our shoe industry. The United States has done it as well in connection originally

with television sets from Japan and things like that.

The difference is, in countervailing duties and subsidies, if you can show there is a subsidy and it is causing injury, then you apply your duty. Under section 301 in the United States system or under our own system which provides for the same—it is not so much open to a private party; a private party complains—it is a government action to apply a quota to restrict the number of goods. The quota is supposed to be lifted once the injury has been reduced and in certain areas this is subject to a totally different regime.

In the area of textiles, for example, we have what is called the multifibres agreement, and that has a whole host of rules in it which define the type of disruption that enables you to enter into some type of protective action and things like that.

But this is a different procedure, and so there are two things provided in this agreement that are quite important, actually. Because quotas can be applied when an American industry complains to the President that they are being injured, the quotas are applied across the board. So, if Canadian exports represent just three per cent, and most of the things are coming from China or Taiwan, we get, what they call in the lingo of the trade, sideswiped by the other action.

There is sort of a problem about sideswiping. The agreement says that unless Canadian imports are somewhere between five per cent and 10 per cent of the total, they cannot apply quotas or safeguard action to us. So that is one threshold.

The second thing is if there is a dispute between us as to the application of these quotas under that section, the commission does not have the option to send it to one of these conciliation panels, it must send it to arbitration. In my view, as I pointed out in the paper, I think, that is because that is sort of a fairly limited, legal-type issue with which lawyers and judges could sit down and ask: "What are the numbers here? Should they have been covered by the sideswipe exemption or what?" When it is fairly limited, we are able to put it into binding arbitration.

In all other cases, the commission will decide whether to send it to arbitration or to conciliation. If it goes to conciliation, then it comes back out from conciliation. Here is the importance and here is where I say we are back to what I would call the loose General Agreement on Tariffs and Trade system. Coming out of the conciliation panel, it then goes back to the commission—these are the two parties—to decide what to do with that panel report.

The problem with the present GATT system is that is where it often breaks down. The parties are still fighting and nobody is going to accept what the panel has recommended, so you end up carrying on the fight for a long time afterwards.

We, basically, have that system here, although there is one advantage in that the agreement, in article 1807.8, provides that, in principle, the commission is to apply the decision of the panel. The resolution is supposed to be "nonimplementation or removal of a measure not conforming with this agreement or causing nullification or impairment," or, if not that, then compensation.

If neither of those two resolutions are possible, we are back to the old

GATT problem of suspension of benefits by either party with a form of retaliation going back and forth. The problem with that system, as has often been pointed out in the GATT, is that you get sort of an escalating trade war going, because, rather than resolving the issue, another party imposes a tariff or some form of trade impediment, which then leads the other party to do the same thing and you get into sort of a trade war, which is the problem with what I call the tit-for-tat sanction-type system that we are into.

A problem that we will run into in this country with the United States will be that we have to really recognize that we will always be in the situation that we were in over the shakes and shingles case that you mentioned, where, in order to retaliate against what we said was an illegal and unjust American tariff, we put tariffs on books and computers. Then everybody in software and everybody in the country said, "Wait a minute, we need those books and computers." In fact, we were hurting our own export industry because we were making it more expensive for them to produce the goods that they wanted to export.

That is the problem with this retaliatory system, both in the GATT and any of these economic systems. When you take retaliation against somebody else's imports, you may be hurting one of your own industries in the process and hurting your own export capacity. That is why it is often very difficult to use this.

That is why, I would suggest, the American Bar Association and the Canadian Bar Association, in that report that I referred to in my paper, recommended a much more substantial type of tribunal that would be more like the European Community. It would be a permanent tribunal that would have the power to hear these issues and bring experts in—it is true—and associate with them, but it would be a high-level tribunal that would resolve these issues. The governments would follow them and not get into one of these panel discussions, panel reports, back to the very parties themselves who may or may not agree to accept the decision.

Unfortunately, we are in a real paradox, in my view. We have created a treaty for economic integration, but we have not faced up to the reality that, to have that treaty, we must have institutions that reflect the nature of that relationship. Those institutions then have to be more powerful binational institutions, which may mean a bigger loss of sovereignty. But you cannot have one without the other, because if you go for the economic integration without the binational institutions to protect you, you are basically letting the American Congress call the shots as to what it is going to do, both in its legislation and answer to special interest groups down there. They will make the rules and we will have to follow them.

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That is the problem I perceive in the agreement at the moment. I think it is a serious concern as to the nature of the institutions. They are not spelled out very clearly. It is what everybody says—a leap of faith. We are going to have to wait and see how it works out over the next 10 years. Then it becomes a political decision whether you want to make that leap of faith or not. That then turns on how you view other aspects of the agreement. Obviously, and I am not here to talk about those, that would probably impact on how far you wanted to go.

I am sorry. I talked longer than the 15 minutes I said I would, but that is sort of the thrust, if you like, of the problems I am looking at in this

agreement. As I say, much of it comes from the work I have been doing in the European Community area and things like that. I am looking at how other agreements of this nature operate and trying to find a balance in all this.

Mr. Pelissero: Thank you for your presentation this morning. I think you have added a new dimension to the whole exercise, which has been made a little clearer.

I want to pick up on where you left off in terms of the leap of faith. I guess, from the information that I have gathered to date, it is really more than a leap of faith when you start talking about economic incentives to develop certain regions of the country and determining what incentives and aids you, either federally or provincially, are going to bring to bear on a region.

You now have a third partner at the table: you have the United States in the form of Uncle Sam determining whether that is going to be a subsidy or not. Certainly, as you identify it—and I am using your words—it is going to be easier to challenge our subsidies. So there is a new player, a new partner, which I do not think we have seen in our history as a country in terms of determining our ability as a country and as a nation for self-determination.

You have alluded to the paradox at the end in terms of if you want greater economic interdependence, then there is a price to pay at the other end. We are seeing in yesterday's and today's media reports that people are now considering, as an example, water to be a good that may be able to be traded under this particular agreement.

You have also touched on whether, in some areas, this is an effective dispute settlement mechanism as opposed to a word that the Prime Minister used, which was "binding." I do not want to put words in your mouth, but certainly if it ends up being modelled after the General Agreement on Tariffs and Trade situation where it is not binding, is in fact anything less than that, we are really in a void, as you have identified, for the next five to seven years. We may not like the terms of what they define as subsidy under the Uruguay round. To me, it just adds a whole new dimension, a whole new light to the topic of having a new partner as we sit down as a country to shape what we want this country to look at.

I would like to come back to GATT for a second. Certainly, in the discussions that have taken place, the Premier (Mr. Peterson) has said that where we have provincial jurisdiction, in the wine industry and our liquor distribution and pricing—and tie it to GATT a bit—if the Americans decide to go ahead with the free trade agreement, with all the rumblings in the United States, the President has simply said that he has to be comfortable that in fact Canada and the provinces are in compliance. That is a presidential determination. It has nothing to do with whether we veto a deal here or not. It is the President who has to feel comfortable that there is compliance.

If he feels that there is not compliance and in fact goes ahead and authorizes the deal, would they be able, as you say, to extract a tit-for-tat retaliation? If, say, they identify that because we are not changing our wine pricing policy it is costing \$100 million a year, would they be able to do as we did in the shakes and shingles issue around the computers and books? That is the first part of the question.

The second part of the question is with respect to the wine industry, and you are probably aware of the proposal that was taken to the European

Community, which basically said, "We're willing to go with a 12-year transition program for our grape industry, but we're not prepared to anything less than that." We had a roadblock there. How do you see that roadblock in particular evolving out, given what you said about some of the international laws versus the ability to institute a binding decision?

Dr. Graham: Wow. OK.

Mr. Chairman: Was that a question?

Mr. Pelissero: Part of it was a statement; sorry. I think it is important. As I say, the whole discussion, and I think depending on the type of legislation Mr. Crosbie is going to bring forward, really determines or will heighten the fact that there is a new partner sitting around the table and we, as a country, are determining what we want this nation to look like. That is something that I do not think has really been brought into the discussion up until this particular time.

Dr. Graham: I would like to come back. I think that is a very important point, and it is obviously one that is very nuanced. However, I will come back to that.

Let me pick up one very quick point on water. I quite agree with you water will be a "good" under the agreement, and therefore, once its export has taken place, under certain circumstances, we will not be able to shut it off for our own purposes without giving the Americans an opportunity to retain their historic access to the water. We are almost into a continental water policy as well as a continental energy policy, which I think was the point you were making.

Mr. Pelissero: Yes.

Dr. Graham: On the other point, and I think you are making a point the Attorney General (Mr. Scott) made very effectively when he was addressing the problem of the constitutionality of the agreement. Basically what you are saying is when it takes something as broad as services, when the province comes to pass legislation in the future in respect of services, you are going to have to concern yourself with what the Constitution of Canada gives you in terms of your legislative jurisdiction and how this agreement restricts you in your ability, in your freedom to act. There is no question about that.

We have to look at that and recognize that all international agreements do that to some extent. Even the General Agreement on Tariffs and Trade circumscribes our ability to act the way we want, and a good example is the wine case, where they have said, "Hey, you are not able to do this without violating the GATT." The GATT has said that, but because the GATT is a very loose system there is room to manoeuvre around and we discuss it and we are trying to come to an arrangement with the EC partners that will satisfy them.

Mr. Pelissero: The point I picked up on was the fact that you said this agreement will make it really easier for the Americans to challenge what we are attempting to do here. I think without the agreement—

Dr. Graham: Yes, no question about it, but that is where I think we have to pick what we want. If we want the closer economic integration, we are going to have to recognize they are going to have, and we should have institutions which enable them to challenge us more effectively if we "cheat"—I will just say, "deviate from the agreement," if you like—and the

same thing when they deviate from the agreement.

I am looking at it more from the problem of our worrying about what they are going to do and make sure that we have that market access. You are looking at the mirror image of that and saying, "Hey, but what about me, as an Ontario legislator?" You are going to be constantly facing the fact that you are going to be restricted in what you are able to do, and there is no question, the agreement will restrict everybody's ability to opt to pass legislation which violates the agreement. When you get into areas like financial services and services and you are talking about national treatment of things, this is going to mean big changes.

In the services chapter at the moment, all legislation is grandfathered, so past legislation is all right, but any future legislation will have to conform to the agreement if we are not going to be subject to retaliation from that end.

Mr. Pelissero: Is that from both a tariff and nontariff barrier perspective?

Dr. Graham: Sure. If you look at the services chapter, it is all nontariff stuff.

Mr. Pelissero: So if this agreement goes through, Peter Mansbridge would not be able to move to the United States because he does not hold a university degree. I understand in the journalist section, you have to have a university degree and three years' work experience, and I think Peter Mansbridge does not have a university degree and Peter Jennings has a high school degree, so he would not be able to come and work in Canada and the other gentleman would not be able to go and work in the United States, if I understand the technical, legal aspects of the agreement.

Mr. Graham: Honestly, I have looked at the immigration chapter. I am just not familiar—I have discussed it with some of the immigration authorities in the United States. My understanding is you are accurate. It is difficult for what they call in the language—it is rather horrifying; the word "fungibles" was the word that was used by this guy in the United States—it is difficult for fungibles to move. It is not difficult the higher you get up, so you can isolate yourself and say, "Well, this is a unique commodity, this particular person."

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Then, of course, under the services chapter, it will depend on sectoral agreements. For example, architecture: They have already agreed there will be free movement of architects. Lawyers: We know how much they protect their turf; it will take a long time for them to get around to it—maybe never. Different sectors will have to come to sectoral agreements on that.

Immigration is an interesting point, because again, going into a treaty of economic integration, the European Community clearly recognizes the free flow of goods, capital, services and people, and this one is sort of goods, services and money, but not people. We have to decide whether we want it or not.

Mr. Pelissero: A last point on your review of the document: This is something that is just starting to come to light in terms of the services sector, but where somebody crosses the border, performs a service to a

consumer or consumers' group and then leaves, I do not think there has been a lot of discussion about the kind of either warranty or guaranty that would necessarily go with that work. As an example, somebody comes across, sells something, and then simply leaves and there is no recourse for our consumer protection. People have been telling us we have a higher level of consumer protection than they necessarily have in the United States.

Dr. Graham: That is correct. Of course, that is the problem. When you get into financial services, it becomes more important. That is why we have rules such as requiring local directors and local people to be involved in banks and trust companies and things, because you do not want somebody to walk in and take the local money, go across the border and say goodbye. It becomes a big issue.

What the treaty provides in this circumstance is a principle of nondiscrimination. In other words, if we have rules in this country that provide for certain protection, as long as we apply them equally and evenhandedly to the Americans as to ourselves, there is no problem.

The problem will arise in those areas where we do specifically want to discriminate and say, "For purposes of protecting consumers, we want to make sure local people are involved and not somebody who can walk out of the jurisdiction." That then becomes a question in the services chapter, whether that is a form of disguised nontariff barrier or not. That is where you are going to end up before the commission and the panel saying, "This one is really a disguised nontariff barrier because you are really just trying to call it one thing, when it is another." That is almost like our constitutional problems that we face all the time in terms of legislation. Is it in pith and substance one thing or is it in pith and substance something that falls within sections 91 or 92? You get those arguments always.

In international trade law, the same types of arguments arise all the time. What is the true nature of the legislation? Is it designed to restrict the entry of goods or is it designed to protect some legitimate state interest?

We had a very interesting case under the General Agreement on Tariffs and Trade involving the Foreign Investment Review Act, which we lost. The GATT panel held that requiring local manufacture here violated article 3 of the investment provisions, which provide for nondiscrimination of goods within the country. In my own view, I thought they totally ignored the fact that the principal purpose of that provision in the Foreign Investment Review Act was to control foreign investment. It had an incidental effect on the goods, but its real purpose was to protect in regard to foreign investment, but other people obviously disagreed with me, including the GATT panel.

Mr. Chairman: In so far as some of those services are concerned, we often have rules that the head office be in Ontario, or that there be a trust account in Ontario or that there be assets in Ontario. It is quite possible, is it not, that this would be seen to offend the principle of national treatment?

Dr. Graham: I really hesitate to answer that off the top of my head. As I say, present rules are grandfathered in any event, so it is only going to be when we are changing for future legislation. I am not sure that a provision that—

Mr. Chairman: We may be changing it soon with regard to travel agencies and trust accounts.

Dr. Graham: I think we would start running into the national treatment problem. There is going to be a problem as to what extent it is a legitimate protection of the Ontario consumer to say, "You have to have a presence in the province," for the purpose of protecting legitimate interests of the consumer, as opposed to saying, "You have to have the head office and all your assets," provided in such a way that only an Ontario operation could actually carry on business in the province.

Somewhere in there, there is going to be a balance between those two. Something that says, "Only an Ontario person or only a truly Ontario operation, fully owned by people in the province, can carry on business," I think would violate the national treatment provision. But something that says, "Look, for purposes of protecting consumers, we are going to insist that everybody, whether an Ontario resident or an Alberta resident or an Arizona resident who wants to operate a travel agency in the province must maintain a trust account of a certain amount," that is national treatment; everybody is treated exactly the same.

Mr. Chairman: Or else we should have the right to extradite.

Dr. Graham: Yes; true.

Mr. Chairman: Which is criminal law.

Dr. Graham: Sure.

Mr. Chairman: But surely it should be given to us if we are going to have that infringement.

Dr. Graham: Yes, this will lead to all of those sorts of problems—there is no question about that—because with the economic integration comes all those sorts of issues which, as I say, we will work out over the years, but it is going to take a long time.

Mr. Villeneuve: Thank you, Professor Graham, for providing some in-depth comments on your experience in international law. Maybe this agreement will indeed promote many more people such as yourself to be oriented towards becoming specialists in international law.

Dr. Graham: I think it will be a growth industry for the lawyers if that is what you are suggesting, sir.

Mr. Villeneuve: The dispute settlement mechanism is something we can only talk about until such time as the deal is in place and challenges occur, and inevitably they will occur.

You commented on the basically airtight situation in the European Community and the rather loose dispute settlement mechanism of GATT. In your opinion, does this seem to be falling somewhere in between these two? Could you expand a bit on what you feel we should be oriented towards? Should be going towards the EC type mechanism or should we stay fairly loose, such as we have in GATT? Sometimes, I wonder: We are signatory to GATT and we have some GATT decisions and we have a lot of argument about it. It goes on almost ad infinitum and nothing gets settled, in spite of a ruling.

Dr. Graham: Right. That has the convenience of being loose to allow us a certain political manoeuvrability in the system and it has the inconvenience of not guaranteeing certainty and an effective enforcement of the rules.

Looking at something like the GATT, for example, at the university the other night, I had the Japanese ambassador for the GATT and we were discussing these issues that will be discussed at the economic summit. I asked him, "Where do you think the Japanese government is on the dispute resolution mechanism?" putting it to him that the Americans are now trying to go a more legalistic route in the Uruguay round and the Europeans and the Japanese are resisting that.

He said: "The Japanese are very much at the loose conciliation end. Let's talk about this. Don't hand it over to a court that is going to hand down a binding ruling that is going to embarrass us." They want that ability. If you want that in a system, I think you have to recognize you are only willing to accept that in a system where the integration process is fairly loose as well.

My concern about this agreement is that I think we have a GATT type or one closer to the GATT. It is an improvement on the GATT—there is no question about that—from a technical point of view. The panels will be appointed more efficiently. The time limits that are provided for in the agreement are much superior to those in the GATT. It does address some of the GATT problem in the technical operation of the panel.

But when you come down to it, the underlying way in which you will operate is closer to the GATT model than the EC model. As I say, my concern is that we get a treaty that is developing the economic integration without providing the institutions that are going to manage it that way. We have to recognize that if we go for those institutions, they are going to cut on us as much as on the Americans. We are all going to lose the ability to act independently, more and more, the more the institutions become effective along the EC lines.

Mr. Villeneuve: Along that line, you mentioned something to the effect of sideswiping or blindsiding, which the American omnibus bill would tend to do to us when it is being applied to Japan or whatever Pacific Rim country or the EC. What is your feeling on that particular area where it looks like we are going to be allowed to be exempt from this blindsiding or sideswiping?

Dr. Graham: In the area of quotas, that is right. There is a specific provision in the agreement.

Mr. Villeneuve: It does not go beyond.

Dr. Graham: If they are going to apply quotas because of emergency action against unforeseen imports that are causing serious injury, and they are not imports that are subject to countervailing duty or antidumping duties because they are not unfair imports, if you like, but are just something you cannot handle, we are not going to get sideswiped. If a developing country, for example, with a tremendous labour advantage, is suddenly able to dump or send an enormous number of cheap goods into the American market, and they say, "We have a right to put up safeguard or emergency action under the GATT," they will not hit us unless we are also something between five and 10 per cent of that total. We are protected against that. That is correct.

Mr. Villeneuve: In your experience, in what areas could we be sideswiped where we have more than 10 per cent, for instance, if that is

the—do you have any example?

Dr. Graham: No, I do not have a concrete example. I think in this type of area it would be quite unlikely. It certainly is not a big problem. It might be in an area of textiles.

Mr. Villeneuve: That is one thing.

Dr. Graham: Textiles is the one industry where it probably could apply more than anywhere else, in my view. I cannot think of any other area where it is likely to. For steel or something like that, I cannot see them using the quota system on European steel and catching us as well. It might be certain types of steel as well, but textiles or steel are the only two I can think of that would apply to us.

Mr. Villeneuve: One final question and it pertains to countervail: The Canadian corn industry countervailed the Americans for the first time in history because it proved that indeed there was subsidy. In a visit to Washington a month and a half or two months ago, I got the distinct impression that the Americans figure we are totally subsidized here, particularly agriculture, that there is nothing but subsidy, when the government of the United States provides the major portion of American farmers' income. But they do not consider it subsidy. Yet we countervailed American corn.

Dr. Graham: Right.

Mr. Villeneuve: Could you comment on that?

Dr. Graham: That case has ruffled the doves in all sorts of places. It is a very interesting case. There is some legal question. As I understand the case, the argument of the Ontario farmers was that the subsidies, if you like, were cutting out of world markets or making it impossible to sell our grain on the international exchanges. That resulted in the damage they had. The Americans are challenging that by saying: "You do not have a right to countervail on that issue. You only have a right to countervail for the actual American corn that is imported into Canada and competes and drives out local corn."

Mr. Villeneuve: But we did and we have.

Dr. Graham: But we did and we have. Of course, the Europeans are very pleased at this. You are quite right. What is happening in the agricultural area is that the Americans blame the Europeans and the Europeans blame the Americans. But very clearly, what usually happens is it is often the Europeans who, through the common agricultural policy—as you know, they have a floating tariff. It is very complicated, but in any event they give tremendous benefits to their farmers and then the Americans complain and say, "OK, we are going to give a huge subsidy," which they did before the last legislative election they had down there and upped the subsidies again just prior to the election.

We are caught in the middle if we do not subsidize as well. That is why we end up giving \$2 billion to the Saskatchewan farmers and we end up paying the price of the American-European Community subsidies war. There is no question about that.

Mr. Villeneuve: We, as Canadians, did something that the European Community was not able to do, which was to countervail and prove that the

Americans were indeed subsidizing. I can see where the European Community would be pleased with that. That proves something it had been trying to prove. Yet do you not feel that in order to be able to compete with the EC, not only in agricultural products but in everything, as North Americans we should present a more or less unified front as opposed to trying to tear ourselves apart for the EC to gain.

Dr. Graham: I think in the agricultural area you may well be right. As you know from the Uruguay round, there is a group called the Cairns group of which Canada is a part, but the United States is not in the group. It is Australia, ourselves, New Zealand, the ones that feel they are getting squeezed in the war between the EC and the Americans. We kind of see them both as guilty parties in this one, I quite agree, dealing with the United States. One the biggest problems in dealing with the United States in these trade issues, like many others, is they always assume that what they do is wonderful and what everybody else does is cheating. One of the biggest problems is trying to educate the Americans as to what is going on.

Mr. Villeneuve: We won that one.

Dr. Graham: I know, but do not forget, that victory may or may not be significant because a countervailing duty only applies to the corn which they are shipping up here. The big problem is not that. It is our ability to sell in the third world markets that they are absorbing because of their subsidized stuff. That is where we are really losing and countervail does not apply to that. That is no remedy. We have to go to the GATT, try to attack them under article 16 of the GATT and get a GATT panel to rule that they are doing it. That is just not on at the moment. The agricultural rules are just being violated.

You go to this problem of the subsidies. I am just talking here sort of in terms of gossip, but from talking to our own Canadian negotiators—coming back to your point about the American position—I understand one of the reasons we did not get a subsidies code was that when it came time to discuss that with the Americans, the Americans said: "We all know you Canadians. You have subsidies. You are riddled with subsidies. You all cheat like mad. Of course, we are pure as the driven snow." Our people said, "Hey, wait a minute, we made a list of your subsidies," and they brought in a book about this thick of American subsidies.

The Americans took one look at it and we never heard the subject of subsidies again for about six months. They said: "We cannot do it. It is too complicated." They realized the minute they started to put pen to paper they would have so many American industries and American vital interests that would be mad that they backed off, so we never got that code negotiated. I am just repeating what somebody told me, so I do not know whether it is true.

Mr. Villeneuve: They know we have those trump cards and I think these will all have to be shown sooner or later in the dispute settlement mechanism, whether it is with agricultural products, steel or whatever.

Dr. Graham: Right.

Mr. Villeneuve: I do not believe we can ever win a war against the US or anyone by countervailing and protecting. I think we have to work towards liberalization.

Dr. Graham: Of trade. If you want to do that, then I think we need

institutions in this agreement that are more sophisticated than the ones we have. Otherwise, what will happen is that because we are the little guy, they will be able to do basically what they want and we will always have to say, "We have to temporize with them," because there is no independent third party to whom we can say: "Look, they are cheating. Now make them stop."

We will be constantly temporizing and temporizing, and the more closely integrated into the American economy, the less freedom we will have in the future to be able to take an action that protects us because it will cost us too much to be able to take it. That is a concern I have. I recognize your point, but I think it is a real concern we have when we look at this agreement. We have to know where we are going.

Mr. Villeneuve: Then possibly this is where we have to be doing some corrective surgery.

Dr. Graham: Possibly; I think so.

Mr. Chairman: When we were in the United States, I quoted to the Office of the United States Trade Representative officials some information, which I think came from them initially, that their American industrial subsidies total about \$60 billion a year, and the agricultural negotiator, whose name escapes me at the moment, thought I was talking about agriculture and said agricultural subsidies are about \$35 billion a year, so I am presuming there is a total there of about \$95 billion in admitted subsidies in the United States.

Mr. Villeneuve has said we were successful with the corn countervail. I recall putting that comment to the president of the Ontario Federation of Agriculture when she was here. She subsequently sent me some information which leads me to conclude that while we were technically successful in finding subsidy, the corn producers were not particularly happy with the results in so far as any meaningful remedy was concerned.

Mr. Pelissero: The government backed off on the amount of countervail it was going to charge.

Mr. Chairman: So there was really no positive economic result.

Mr. Villeneuve: Our markets were flooded. We were able to fully supply our markets and were still looking for export markets. Whether we directly or indirectly blame the US and its particular method of operation, we did prove that it was subsidizing heavily.

Dr. Graham: Oh, yes; there is no question about that.

Mr. Chairman: Mr. Villeneuve has asked you whether or not that was a positive example to the European Community and that it has never successfully done this. To what extent have they ever tried? Is not countervail basically an American concept, one that I would suggest they may have browbeaten the General Agreement on Tariffs and Trade into accepting and one that may not be all that valuable for other countries?

Dr. Graham: That is a big question.

Mr. Chairman: They use it much more than Europe.

Dr. Graham: I would certainly agree with you that countervail was

until recently a largely American remedy within the US, and other countries, of course, have constantly complained about it. That is why we got the subsidies code under the GATT. Everybody recognizes there are legitimate subsidies and illegitimate subsidies. When you get into this problem of upstream subsidies on natural resources and things like that, we are into a whole new discussion in the GATT.

You may have heard of Mr. Gibbons's bill in the United States, trying to define upstream subsidies. They are into a war with the Europeans. They say that a subsidy on grapes is equal to a subsidy on wine. Then you get into these technical trade arguments of whether wine is the same product as grapes and all those things, which I make my trade in dealing with, teaching about at the law school.

You are quite right that the Americans have for a long time—but I suggest to you that others are following. Because of the nature of trade laws, everybody wants to have the same arms and weapons as the others. For example, until we changed the Special Import Measures Act here in Canada, in the old system we never had any subsidy cases like the one you mentioned over grain, partly because in order to get any action you had to get an order in council from the cabinet.

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Now subsidy cases in this country are just the same as dumping duty cases. You just go and you get it and you go to the Canadian Import Tribunal, and it works the same as in the old dumping cases. Now we are seeing lots of subsidies cases in this country because individuals are starting to bring them all the time. We are starting to use it a lot too, and my understanding from looking at the European Community system is they are starting to use it too, so everybody is learning from the Americans.

Mr. Chairman: We are all learning how to become Americans all over the world, and then maybe we will all—we are all learning to be lawyers.

Dr. Graham: That is true in the trade—

Mr. Chairman: Japan will have to get on the boat too, I take it. I should not be intervening as much. Mr. Mackenzie has a very brief question, and then we will have to move on to our next witness.

Mr. Mackenzie: At the risk of oversimplification, I guess, you made the point to some extent and you pointed out the pile of subsidies that we felt the Americans had in the agricultural field. One of the things that has bothered me most about this agreement right from the beginning is simply the fact that we are not defining in advance what are subsidies and that we have a five- to seven-year period, as I understand it, when we are going to have a joint committee working on this.

How in blazes can you enter into an agreement with the implications that this trade pact has when you are going to be negotiating over the next five to seven years what are actually the subsidies? They can have an effect on almost every single one of our industries.

Dr. Graham: Actually, I made a rather similar point, Mr. Mackenzie, I think perhaps before you came in. While the dispute resolution mechanism in respect of subsidies and antidumping duties is fairly sophisticated and an advance on the GATT, it does not address the core problem in this area, which

is that we do not have the subsidies code so we really do not know.

We are stuck with the present rules and we know they are not satisfactory because we get into problems like we did over softwood lumber. We still maintain that was not a subsidy, the way in which a province treats its resource. It is a sale of a resource at a price that it fixes for the resource. That is not a subsidy. The Americans were determined it was.

Mr. Mackenzie: We are also stuck with the fact that as we are more integrated into the system, as you mentioned, we are going to have less and less clout in terms of the negotiating we do.

Dr. Graham: If we do not have the proper institutions to make sure that we can make our input, that is right. It really concerns me that legislative decisions will be made in the United States, which will have their impact here, and we will just have to eat it.

Mr. Mackenzie: The difficulty I have on it is I guess to some extent from my background, there is just absolutely no way you will sign a contract you have negotiated when half the conditions and terms of that contract are not known before you sign the contract. It does not make any bloody sense at all.

Mr. Chairman: Thank you very much, Dr. Graham. We appreciate your coming and enlightening us. As Mr. Pelissero said, it has taken away some of the cobwebs, particularly the different chapters on dispute settlement. We appreciate your views, which I think a lot of the committee members can sympathize with.

Dr. Graham: Thank you very much, Mr. Chairman. I hope I brought more light than heat, or whatever the expression is.

Mr. Chairman: The next witnesses we have before the committee are from the Ontario Coalition of Senior Citizens' Organizations. We have a brief from the organization which is being distributed to you now. Members of the organization, perhaps you could assemble yourselves before the committee. We have with us Harry Fields, Bill Corms, Sheila Purdy and Mark Frank, and the president of the organization, Stan Sugarbroad.

Perhaps, Mr. Sugarbroad, you could identify the other members for us.

Mr. Sugarbroad: Yes.

Mr. Chairman: Thank you. Then lead us through your brief and perhaps you could entertain some questions thereafter.

ONTARIO COALITION OF SENIOR CITIZENS' ORGANIZATIONS

Mr. Sugarbroad: My name is Stan Sugarbroad, and I am president of the Ontario Coalition of Senior Citizens' Organizations. As you can see from page 1 of our brief, we represent quite a number of organizations, of which we have some representatives here.

Let me introduce you to Mark Frank of the typographical union; Sheila Purdy, to my right, who is a lawyer and represents the Advocacy Centre for the Elderly, which is our council; Harry Fields of the Association of Jewish Seniors; and Bill Corms of the Canadian Council of Retirees, which is an Ontario and Canadian organization of various union retirees across the country.

I feel that if I read through this brief page by page, it is going to be a bit boring and a bit too much, so I think the best thing I can do is give you a broad outline of why we are here a second time.

Mr. Chairman: I think that is an excellent idea.

Mr. Sugarbroad: Then I will call on my colleagues here to emphasize various points that we want to bring home.

We did present a very concise brief at the beginning to the Monte Kwinter committee that was sitting and we spent quite a lot of time explaining our position there. But since then things have developed, as you know, and more examination of the treaty has taken place. There are a number of things that have come to light, which we are very concerned about, and we felt that we would express again our feelings on certain parts of the treaty, but especially take up the question of the social services section.

The reason for that is, as seniors, we are very concerned about the question of subsidies in relation to our social services. We find our seniors are very uneasy about this and very worried about the possibility that social services may be interfered with in some way, may be used as a bargaining factor, even though we have been told by the Mulroney government and by his representatives that social services are not involved.

I just want to read a particular fact, if I may. The government repeatedly stated that social services were not on the table in the free trade negotiations. In the explanatory preface to the agreement chapter on services, it continues to maintain that government-provided services such as health, education and social services are excluded. The best one can say about this claim is that it is extremely misleading. Social services most definitely have been included in the agreement, but their inclusion has been hidden from public scrutiny because they have not been listed by name. Rather they have been listed as code numbers from the standard industrial classification list.

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The management of all health and most social services is listed. This includes the management of all hospitals, including general hospitals, mental hospitals and children's hospitals; the management of other institutional services such as homes for the physically handicapped and disabled, homes for disturbed children and homes for single mothers; and the management of noninstitutional health services such as ambulance services, rehabilitation services and public health needs.

The management of these services means just what one would think, according to Canada's Trade Negotiations Office, running hospitals, running homes for children, running ambulance services and, strictly speaking, the government assertion that the agreement applies only to commercial services is correct.

If a hospital decides that it does not want private management, there is nothing in the agreement itself which would require it to open its door to the United States. But if it does seek private management, then it comes within the agreement, and that is what we are concerned about. We are very concerned about the fact that this is a hidden subsidy question, that this may come up at any time in negotiations. We are also concerned about the fact that negotiations on subsidies are not finished. We are told that this can go on for the next five years and we are very concerned about it.

We seniors must defend the hard-won social services, our medicare programs and our many other support services, which our more enlightened and compassionate society has built up over the years. I say "more compassionate society" because we are not market-driven, as is the American society south of the border, and we do not have the problem of millions of our population left without insurance, medicare or welfare, too poor in fact to buy needed care. The latest figure south of the border is that 37 million are in that category.

In the main, our care facilities work efficiently, and we do not wish to see them endangered by this free trade treaty. We shall pinpoint the hidden clauses which gives a lie to those, including our Prime Minister, who have proclaimed that social services are not part of the treaty.

The inability of the negotiations as a deal to define unfair subsidies, prior to the date on which it must be ratified, points to this doubletalk. It is a question of subsidies, a level playing field, that we are concerned about. So we will spend quite a bit of time on those particular questions in order to make it clear how we feel about this important section of the treaty.

I would like to call on my colleagues, one at a time. Are you ready?

Mr. Frank: I am ready. I am always ready on a matter of this kind, because we were enjoined by the Premier of Ontario some time ago to stand up to the US on free trade. I have a newspaper account here. I think that moment of truth is now with us, and those of us who do not stand up to the US on free trade and to those forces inside Canada who are busily propagandizing it are, I think personally and I think my colleagues think that too, failing in our duty as Canadians.

We are not seniors, we are not workers, we are not businessmen; we are Canadians. The issues involved here agitate us. Apart from the whole process that leads up to this moment of truth, which was a process of secrecy and a process of not informing the Canadian public, when one receives the deal, it is highly suspect.

My part in this is to refer you to page 13 of our brief which deals with older workers. While we plead the special case of older workers, I want to remind you that we plead the case of all Canadians. The first paragraph there makes the assertion that those hardest hit will be women, minority workers in vulnerable manufacturing industries and older workers.

I am sure others will appear before you on the question of women and minority workers. My concern with older workers and my views are based not only on what I have heard about in other industries, but also in the industry I worked in, which was the printing industry.

There is no assurance in this thing that is coming upon workers generally, the loss of their jobs as a result of free trade—no parallel, real assurance that those displaced are going to find jobs, particularly older workers who even without free trade are being confronted with this question of finding jobs and retraining under present conditions. Officials of our union assessed that something like—the amounts vary—between 6,000 and 25,000 workers in Ontario will be laid off, and industries in our trade will be required, as will many other industries, to restructure.

Now it is very clear that when you restructure on the basis of seeking competition with a massive US printing and publishing industry, you have some way to go to restructure. The danger is that the first targets in these

industries that require restructuring—and that will vary from industry to industry—such as the highly technological industry of printing, will receive a major impact. It is a vital industry in Ontario. The publishing industry and the printing industry together employ over 100,000, and in Ontario 53,000. Sales in 1985 amounted to nearly \$8 billion, and in Ontario \$4.2 billion. Now that is a considerable part of a vital area of our economy.

Our fear is that—and this is not ours alone. It is the fear of the Ontario Ministry of Industry, Trade and Technology, which reported that the printing and publishing industries are highly sensitive to the free trade impact. In other words, I am not offering my own view here on this. It is one that has been confirmed. In order for a massive restructuring in industry generally, and in ours in particular, to take place over a period of five years, great economies have to be worked out.

I was just handed this newspaper clipping from the Globe and Mail of May 18. It is the point of view of Ford Canada on this question. Kenneth Harrigan is quoted here, after the meeting. He complained that laws in Ontario and other provinces governing overtime hours, pensions, workers' compensation and workplace safety can rob companies of needed flexibility and be a drag on profit. Well, profit is the bottom line in this trade deal, it appears, and those who will be victimized here and those who are for the free trade thing see in it a profit incentive.

I want to refer you to a previous submission on this older worker question which I have spoken on fully before the cabinet committee. My views are on record and available to you in detail with regard to this question. But before I pass off the scene to another colleague, I want to draw something to your attention which struck me and I wonder whether your committee will be asking for expert witnesses on the subject. It is the question of militarization of the economy in Ontario as a result of passage of the free trade agreement. •

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I want to refer you in that connection to a recent number, the March 1988 number, of Ploughshares Monitor which is put out by Project Ploughshares, to which I am a subscriber. This lists in detail those companies in Ontario, and there are quite a few of them, that benefit directly from defence orders.

Ernie Regehr at the University of Waterloo, who I believe is the editor of this, has pointed out very skilfully that the defence industries in Ontario are not operating for the security of Canada as such. It is often the claim that these industries are for our security. In fact, they are operating to fill the American market. That is their basic intent.

It is a very lucrative industry. Some of them are like Bell Canada, Litton and so on, which manufacture components for the very weapons we all fear will some day be detonated, like the cruise missile and nuclear material. It is a fact that we export nuclear material from this province. I believe it is tritium, which goes into the manufacture of atomic weapons.

I think the free trade pact has less to do with wine and some of these questions that are currently in the news than with some of the deeper elements that are contained in the free trade pact. The lack of our recognition of that fact will blind us to the total effect of the passage of this act.

I recommend Ploughshares to you, but I want to say also that the Labour

Council of Metropolitan Toronto, with which I am affiliated through a union, has recently passed a resolution on this very question. That is the Metro labour council that represents over 400,000 organized workers in the Metropolitan Toronto area. On Thursday, April 7, it passed a resolution, "Free Trade and Canada's Military Buildup," which offers some other views on this question.

Mr. Chairman: I am going to make sure we get a copy of the Ploughshares Monitor. I have not had it for distribution. In fact, I have not seen it. We will get it and make sure members of the committee have it, because that organization is a very reputable one, particularly in my neck of the woods.

Mr. Frank: I would like to call on Bill Corms.

Mr. Corms: I guess I am going to come at this from a different angle. The seniors of today are the ones who have built this province, this Canada of ours. We did not have the high wages. We did not have the opportunity to put ourselves in a good financial position. Many of us had to work for small wages without any benefits, no pension plans.

We felt that when we became seniors, we would not have to worry about our social problems. They would be taken care of. We had been assured over the years that seniors would have nothing to worry about. We had the same thing with the indexation battle. We will not worry about that now; it is over. This is our concern today. We are now afraid we are going to lose the benefits that we thought we were going to have. We implore this government of ours in Ontario to stay on line, fight free trade and protect us.

The Americans say we cannot have this and we cannot have that because of the subsidies. We do not see them as subsidies here. This is a right for the elderly of Canada. We paid into it in taxation over the years. We have worked for small wages. Even when we did not have to pay taxes, we were still working for small wages and we could not make ourselves viable.

So today, we implore the government of Ontario to put a stop to free trade, protect the elderly—and not only the elderly—and provide a future for those people who are coming into our stage of life, the elderly stage of life. Today, 55 is young. We want to see those people protected. It is our fight today, for a lot of the things we are after, but we will never benefit from it. But you young people sitting around here, coming behind us, will reap the benefit of our fight on your behalf today.

Again, we say: "Mr. Peterson, stay on line. Do not waffle. Help us protect Canadian citizens, the elderly, the poor and the young."

That is all I have to say. These gentlemen here will have lots to say too, but this is my plea: Protect us.

Mr. Fields: Canadian citizens and Canada have been condemned by some of the large, multinational, big buck corporations for contributing to and subsidizing Canada's health plan and thus increasing our deficit.

Our health plan, as far as we are concerned in Ontario, is considered to be probably the best health plan in the world, despite its many deficiencies, which we are continually correcting and improving. Compare ours to the health care system in the United States. They spend considerably more per capita and get a heck of a lot less than we do. When an American senior citizen today is

faced with the need for health care or long-term care, he faces a financial calamity. The families are called upon to help and it has bankrupted many a family.

We fought hard and long to attain this health plan that we enjoy. We urge our provincial government and leaders not to back up from the federal government and to protest the impending free trade deal. It is infringing upon our cultural rights, our social rights, and it is certainly putting all our services at risk.

When we presented our first brief to the parliamentary committee on free trade, I said at that time that I was speaking more from emotion than knowledge about free trade because we knew very little about the provisions of the free trade deal. As a matter of fact, if I recall correctly, the week that we presented our brief to that committee, the text of the free trade deal had just come out.

Since then, I have learned a lot more about the provisions and the dangers that we are facing with the free trade deal. I am a lot more concerned about it, not only because it applies against Canadian citizens, and particularly the seniors, but also because it presents a threat to disabled people whom we are taking care of and attempting to take care of. It certainly is a threat to our entire system of social services.

I urge our provincial government to stand fast and not back up from Mr. Mulroney on this particular issue.

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Ms. Purdy: I would like to add a few comments to what Mr. Sugarbroad said about the services industry. I think you will find the content in the brief, between page 4 and page 9. I want to highlight what the seniors believe the text to be saying about services.

As Mr. Sugarbroad said, the contracting out of the management of all hospitals and nursing homes, home care services and any other health facilities, whether institutional or noninstitutional, is included in the text. That means national treatment for United States service firms. We are very concerned about that. In some cases, it will be possible to run their operations from the United States without even opening up offices in Canada. We are concerned about accountability, the ability to audit what a corporation is doing.

In the licensing and certification section of the services chapter, which is article 1403, we were concerned that the province may have diminished ability to formulate social policy in the area of health and institutional care, because the licensing shall be based principally on competence or the ability to provide such covered services. We question whether other factors, public policy factors, will be able to be implemented in health care without risking the charge that we are discriminating in a disguised fashion against a US corporation trying to establish in our health care system.

The brief goes on to talk about what we know of the contracting out of management of hospitals in the Hawkesbury and District General Hospital case. I would refer you, if the committee has not already looked at it, to a submission that was made by the Ontario Federation of Labour to the select committee on health in April 1987. It is available from the select committee on health of this government.

That submission goes into detail on how the US corporations were able to save money. It was not necessarily from greater efficiency; it was from cutting the staff, turning full-time employees into part-time employees and introducing patient classification systems, which we fear could jeopardize the health of patients in hospitals. In any event, those are our concerns about the contracting out of management being included in the text.

Of even greater concern is the fact that—I do not believe this was in the elements of the deal in October—services are included in the investment section of the deal, and the only services I understand are not included are some financial services and transportation services. So all hospitals and nursing homes, as services, as what the Americans would call industries, are included in investment and therefore are subject to right of establishment and right of national treatment.

We are concerned also about government ability to take control over a sensitive health industry and whether the government would ever want to take over private nursing homes. Our concern is that you are losing the ability to do so, if you feel it is necessary to protect residents of nursing homes. What I am referring to is the inability to expropriate that is included in the services section of the text. You will not lose the ability to take over any sensitive sector, but the taxpayers would have to pay an enormous price to any American industry that is harmed by such a takeover.

Those are my comments on the service sector. Perhaps you would like to ask questions.

Mr. Chairman: Yes, we would, and thank you very much for all of your contributions. It has been very worth while.

Mr. Mackenzie: First, I appreciate the presentation you have made. I appreciate even more the coalition you seem to be building in this particular area. I would like to know if your efforts are being co-ordinated to any extent with the various women's groups, labour groups and church groups that have taken a position on this, because I think that is going to be vital in the next short period of time.

Mr. Sugarbroad: Being members of the Coalition Against Free Trade, we are in fact working alongside all these other organizations that have been making their voice heard, so we are not just acting on our own in this case. We are working as well as we can with all other organizations.

I would like to point out, too, that we are members of One Voice-Seniors Network (Canada) Inc. which covers the whole of the 10 provinces of Canada. We are affiliated with One Voice. Our first brief was taken up very well by One Voice. They included themselves as party to it. So we feel our point of view is going into the other nine provinces at the same time through our national organization One Voice. Incidentally, Bill Corms is a member of the board of One Voice and one of the other members of Canadian Pensioners Concerned; Jean Woodsworth is vice-president of that organization. We have a lot of input into national organizations and we are making our voice heard.

We feel that here in Ontario we must absolutely set a firm face against it because Ontario is involved up to the hilt. If one reads the newspaper this morning, the US Senate has almost threatened the Premier that if he does not conform to what is required under the free trade agreement, there is going to be trouble. I think that is something we should take note of.

Mr. Fields: I would like to add, if I may, to Stan's comments. The Association of Jewish Seniors, of which I am president, recently had a conference, just a matter of two weeks ago—our annual conference—and the theme of it was "Free Trade: What Does it Mean to Canadian Seniors?" We debated and analysed and discussed this issue to the fullest extent of our ability and determined to take a strong stand against the free trade deal.

Mr. Mackenzie: You are aware, I take it, because you dealt at some length with your concern over the services that could be affected, that you are facing the inability of a government to use government intervention in terms of additional social services. That can cut back into arguments even, I guess, over things like user fees, management charges and the ability to extend dental or other programs. Those will be open to question, strictly apart from the management of hospitals and health services.

Anybody today knows that the value of the licence for a nursing care bed alone is better than \$50,000, almost \$60,000 per bed. So we are talking about a sizable amount of money that is at stake in terms of the kind of privatization that has developed in the United States, as against Canada.

You made one other comment that I thought was apropos. I would ask you to recognize that whether people like it or not, you are now into a political fight. When you said "the moment of truth," which I think is certainly very close to being upon us in this country, the question is whether you can keep the pressure on various parties and members of Parliament to hang tough on this issue, because it is going to be a political decision from here on in.

You have shown your power already in terms of the efforts to deindex the old age pension. I am just hoping that you have got the same clout, the same commitment to go after, without question, the parties and the members of Parliament, because whether or not this Ontario government stands firm, whether or not we can get an election federally in time to have some input into the decision is very much a political decision, nothing else.

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Mr. Sugarbroad: We are very concerned about that. We do plan to play our part in the general election, whenever it comes along. In fact, we have made our point on this C-22 draft bill, which, as you know, was foisted upon us and is now resulting in a much greater expenditure in our hospitals for drugs and nursing homes, and it is beginning to pinch in the pockets of the rest of the population.

We have heard nothing about this advisory committee which is supposed to be keeping down the price of drugs. As you know, that was, in our opinion, the first part of the free trade treaty in operation. We were told there would be no increases of drugs above the cost of living, but prices have gone up sky-high. In fact, I was reading a report made by our Senate on the question of the cost of drugs, and it seems that in certain cases as much as 50 per cent has been the increase of drugs since Bill C-22 came into operation.

I think that should be our warning that this is what we can expect under a free trade agreement which contains so many hidden clauses which are not yet uncovered. In fact, there is a cutting here I brought with me on water exports—I cut it out of the Toronto Star this morning—in which a nonprofit science organization warns the government that water is considered a commodity for sale under the terms of the GATT. Therefore, it is another classified number in the treaty, and you will not know what it is. So we can expect that

if this treaty goes through, then it will be the next thing that will be under discussion: How much water can we export to the United States?

So that is coming to us from day to day as more and more things are exposed in this treaty, and we are very concerned that the government does take a stand, a real stand, stay firm.

Mr. Frank: I just wanted to respond to this idea. The thought that seniors are kind of over the hill—I agree with Mr. Sugarbroad—is simply not true. I do not know whether it was ever true. But what has happened is that seniors have become organized in the face of their problems, and to suggest that there is no clout there—and I know that was not in the thinking there—but the truth is that there is still this idea that seniors, you know, are not available for action.

That is not true, and I think that is why I favour this idea of our getting more immersed into this battle, because it is very real. I would have liked to see in yesterday's papers an all-party stand against the free trade thing, a united all-party stand, because the issues go beyond party questions, and that has not happened.

Second, the idea that the fight should proceed through the court approach, it seems to me, dooms the entrance into that fight of millions of people who want to say something and do something about this. The example of Ontario could be a mighty example to our parliamentarians in Ottawa who will be dealing with the material itself.

Mr. Corms: I think one of the concerns is that we read in the paper one day what they are going to take away from seniors and we read the next day, "No, this is not what we meant." They are keeping us confused, for the simple reason that, in the deindexation, they came out with a positive statement of what are they going to do with the old age pension, so we knew what was on the bill.

Today we hear one thing one day, one member of Parliament tells us this; the next day somebody else tells us something different on the same line. We just read in the paper last week George Hees saying, "The seniors have got to be prepared to fight for their benefits." Here is a member of their party telling us this, but they are keeping us confused so that we will really not get into a segment of a powerful nation at the present time.

I am wearing my button, my grey button, and the idea is this: If they come out and say, "This is what what we're going to do to you," then the seniors will be up in arms. I can tell you it is going to be just as bad, much better than we were in the last one. The last one was a quick thing, but this time we will know in advance, if they would only tell us exactly what free trade means to seniors, which they do not do.

You read on the financial pages of the Toronto Star, "If the Conservative party is re-elected in Ottawa, the seniors will be terribly hit." This is written by an economist. So these men must have some idea. If you can remember before the last federal election when this guy Crosbie said, "If the citizens knew what we had in store, they wouldn't vote for us," now that was in the paper.

We are in the same position again. We just do not know what they are going to do to us and we would like to know.

Mr. Mackenzie: We have been told only that we will have a free trade agreement.

Mr. Chairman: We have been kept in the same boat, I think, to some extent. I think they are trying to keep everyone in that position. They have certainly done it to the province, and I think the Americans are very confused as to what extent Canada has the endorsement of the provinces. I think, frankly, they have convinced the federal administration there that somehow Canada has a similar Constitution to the United States and that the provincial jurisdiction can be overridden. Obviously, the Senate finance committee is not completely convinced of that.

I would just say to begin with that, if there are any politicians in this country, subsequent to the Wilson budget of 1985, who think senior power is not viable political power, they are probably not going to last that long.

I would ask you one question. Yours is a provincial organization but you do have contacts with similar organizations in other provinces. I have found, when I go out and talk on this issue—

Mr. Sugarbroad: I am wearing a Nova Scotia badge, as a matter of fact.

Mr. Chairman: Well, all right. Nova Scotia may be a case in point. The Premier apparently sold his endorsement for free trade by getting a letter from the Prime Minister promising him something else. People tell me in Quebec that they are not hearing any contrary arguments on this topic, it is pro free trade.

We have a very lively and viable debate in this country. This committee has had more hearings than any other legislative committee on this topic in the world. What are you doing in Quebec, for instance, to waken the government of that province to the constitutional problems it is getting into, which surely it should not be endorsing?

Mr. Sugarbroad: As you know, the question of national coverage of senior citizens is something completely new. It arose only last year. The senior network came into existence only about a year ago, and so we are still in the process of bringing together the various groups from the different provinces. This is, of course, because of distance and so forth, and seniors are not so easily mobile. It is a great problem.

Mr. Chairman: I realize that, but—

Mr. Sugarbroad: But there is considerable feeling among the seniors all over Canada. There is no doubt about that.

Mr. Chairman: You should not underplay your own power in this thing. You realize, for instance, just this week Mr. Crosbie railed against our Premier as being a typical Ontarian who is looking out for the fat cats in this province. We constantly have to face that problem in trying to convince our brethren in other provinces. If you have contacts in other provinces, you should get them active as fast as you can.

Mr. Sugarbroad: We do, and as you can see, we are not an organization that goes in for bingo. We are an organization that fights politically and tries to educate our seniors as much as we possibly can. You can see we are 300,000 strong. We have reached Big Trout Lake, where the

Indian band is, a thousand miles away, and we grow day by day. I am sure that we shall be able to present our ability to change things as we go along, as we get stronger and stronger.

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Yes, great power is here in Canada, but not in the same way as it is in the United States with the Grey Panthers. It is Canadian in its character. It is slow to start, and I believe it will make a very great impression, especially in the general election.

We intend to get that drug bill, Bill C-22, repealed if we possibly can, and we are proceeding on that too. We issued a lot of propaganda when it was first introduced, in the form of about 12,000 folders, and we contacted many organizations. We intend to repeat that and we will play our part in the general election when it comes along.

At this stage, we hope this second brief and your kindness in hearing us will help to mobilize more people.

Mr. Chairman: It certainly will, and we certainly appreciate your giving us this brief and presentation today.

Mr. Corms: I can tell you that in Ottawa at the One Voice conference, we had the 10 provinces and the two territories, with the leaders of the major senior organizations in attendance. We have elected a representative from every province and from the territories, so the input will come. We have a newsletter, which is already written, to the federal government, expressing our feelings on free trade. It has already been sent to them, with our brief, and our people have sat and talked to them.

We are in the position right now of being ready. I think that what we have to do is not let up and just continue hammering. We have everything in line right now to do it and we are financed.

Mr. Sugarbroad: I point out that at the One Voice conference which took place a few weeks ago, we did take advantage of being in Ottawa to meet with George Hees's top policy adviser. George Hees was away in Korea at the time. We made clear our position on free trade. We expect that to be passed on. We presented our first brief. We are doing what we can in all directions. We are open to some more questions, if you would ask them.

Mr. Fields: One of the things regarding the free trade deal that maybe bothers me more than anything else is the fact that regardless of and notwithstanding all the provisions of the free trade deal and the extensive negotiations that have been going on, there will be a period of five or seven years before the complete ratification or implementation of the free trade deal will be in effect.

During that time, it appears to me, the way I read it, there are provisions for amendments, for change, for further negotiation. We are going to be faced with battling the largest, most powerful country in the world, and we are going to be put in the minority position and be very vulnerable as far as any negotiations are concerned to protect Canadian interests. So it does not matter what protections we might have now in the free trade deal. They can be very easily dissolved.

Mr. Chairman: Mind you, some would argue that they will not be that

powerful five years from now. That could be an argument against going into it, or whatever you wish.

Thank you very much for your presentation. It was very valuable, and I am sure it had a good impact on the committee.

Mr. Sugarbroad: Thank you for your kind attention. I hope that our second brief will be read through. We could not do it page by page. We thought it was better to do it this way. There is some very interesting material in it. Thank you very much.

Mr. Chairman: Thank you.

I should have mentioned this, particularly to Mr. McLellan before I put him on the spot on this point, but I think there is one thing we should, if we can, just spend a minute or two on.

Our last hearings will be next week. We then need to write. Mr. McLellan has done a lot of preparatory work over the course of the last several weeks. He and I discussed a timetable last week with regard to writing our report which would involve most of the month of June. Perhaps you could just outline what you thought was reasonable in the circumstances. Then we can pass a resolution very quickly, if we may, and make a request to the House leaders for additional time for writing the report.

Mr. McLellan: We have had a large number of submissions. I think they total just under 100. We have probably received about 95 submissions. A lot of them are quite lengthy. Over the last three weeks, we have done a very detailed summary. Usually, in the past, we have done fairly brief summaries, but with the complexities of the issues, we had to really wade through the articles and make sure that we pick up all the bits and pieces.

So there is a long summary that should be finished off next week. That will be distributed to you and you can have a chance to wade through it. I see the process as perhaps unfolding as follows. This document is going to the members next week and we can start to discuss bits and pieces in that following the completion of the hearings.

The other critical component that we discussed months ago, I guess starting off with Mr. Mackenzie, is the whole question of the constitutional-legal ramifications. As we all know, Dean MacPherson up at Osgoode has not proceeded with his work yet on that study. Given the impending release of the federal implementing legislation in Ottawa, it seems to be quite critical that we do have Dean MacPherson look at this legislation and prepare his analysis, his outline, and the terms of reference.

One of the difficulties in that situation is that the report will be pushed ahead, probably into the month of July. Whether or not that is critical to the committee, I do not know. Originally, some months ago, we talked about finalizing it and preparing the report during the month of June and tabling it. Waiting for this study is obviously going to push us into the month of July. Even if he were given the go-ahead next week, I would think that he would probably need at least until the end of June, if not the end of the first week in July, to finalize his report. My feeling is that it is probably a critical component. Obviously, it is up to the committee to decide on that.

Mr. Chairman: Just on that point, I signed a letter this morning asking him to go ahead. The Board of Internal Economy has not even yet —we

have been waiting since February—looked at our request. If necessary, the three of us will pay it out of our salaries.

Mr. McLellan: I think, finishing off the hearings and the summaries that you are going to have, the next thing is that I really have to have instruction from the committee, from the chairman, as to what the thrust of the report will be in terms of its philosophical bent. Clearly, all parties have a different feeling on that.

On the instruction of the committee, I can go ahead in the early part of June—over the next week, I should say—and begin to prepare what will be a fairly straightforward and simplified introductory section. Hopefully, we can have a general consensus on it, and then possibly move into another area which there is consensus on, which would outline the importance of Ontario-US trade and a historical overview of arguments for and against free trade—that general discussion. It seems to me that would probably be the first 25 per cent of the report, and, hopefully, we would have done that.

After that, we would wade into specific recommendations on it. It seems to me, on a sectoral basis, one of the approaches we discussed early on was that we would basically walk through the report and deal with the agricultural section, deal with the energy section and on and on. My outline is going to parallel that kind of format, where we can deal with each sector on a specific basis and then hammer out observations, initially, and then recommendations, on that basis. That is the way I see the month of June, working towards that final report.

Mr. Chairman: I do not think we have time to get into everything on that point. You were indicating that you would need some time for initial discussion of your material in early June.

Mr. McLellan: That is right.

Mr. Chairman: We will give you directions after we have discussed that thoroughly. Then you will need another gap in time, followed by some more time for writing, and then another gap for cleaning up. In other words, you will need some time. What we are suggesting is some concentrated time, perhaps every day all week for the first week in June, then a gap in time for you to put together what we are saying and then to come back and go at it again.

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Mr. McLellan: My feeling would be that it would probably be the second week in June. In other words, we finish the hearings on May 26, and I was thinking that if not the week of June 6, perhaps the week of June 13.

Mr. Chairman: Do we need to have a specific resolution as to exact dates we want? You have been working on the material so far. Would it not be valuable to get going as quickly as we can, bearing in mind that we will have to deal with Mr. MacPherson's report when it comes later?

Mr. McLellan: Say June 6, 7 and 8.

Mr. Chairman: June 6, 7, and 8 are Monday, Tuesday and Wednesday. June 9 is a Thursday. Should we ask for all that time?

Mr. McLellan: I do not know that we would need three full days.

Mr. Chairman: All right, a large gob of time in that week.

Mr. McLellan: If we ask for three days, we will get two days or something like that.

Clerk of the Committee: We already have Thursday morning.

Mr. Chairman: We have Thursday morning automatically.

Clerk of the Committee: Tuesday and Wednesday.

Mr. McLellan: Two and a half days.

Mr. Chairman: I think that is all we need.

Mr. McLellan: Well, we have Thursday morning.

Mr. Chairman: Are we talking about morning and afternoon?

Mr. McLellan: When you say a day, you are just referring to the morning session then?

Mr. Chairman: I do not know. I have never done this during a House sitting.

Clerk of the Committee: If I may, Monday is usually the travelling day for the members and Tuesday morning is the caucus meetings. So you are really talking about Monday afternoon after routine proceedings and Tuesday afternoon after routine proceedings. It is possible to receive Wednesday morning and Wednesday afternoon after routine proceedings. Then you will have your regular day, which is Thursday morning.

Mr. McLellan: So really you are talking about two and a half hours to three hours a day. OK, I would go ahead and get as much time as you can during that period.

Clerk of the Committee: Can I have a motion to that effect?

Mr. Villeneuve: We will need that kind of time.

Mr. Chairman: I think we are going to need all of that. We would ask for that week, as much time as they will give us. Then you would need some time, a week to work on that, or more than a week?

Mr. McLellan: I think more than a week, because that will set the tone for the recommendations and I will need a few weeks to hammer those out and get them back with a draft report.

Mr. Chairman: Two weeks?

Mr. McLellan: I can come back at the end of—

Mr. Chairman: The week of June 27?

Mr. McLellan: Yes, the week of June 27.

Clerk of the Committee: You may want some more time on the week of June 27? Much time? Same amount?

Mr. McLellan: Same amount, yes.

Mr. Mackenzie: The week of June 27 may be difficult.

Clerk of the Committee: That is near the end of the month. It could also be the end of the session too. Most of the members will be leaving the Legislature.

Mr. Chairman: If it is. We have no idea. I certainly do not have any reading as to when the session is going to end. MacPherson certainly would balk at having his material done before July 1, I think. So we could ask for those two weeks: Monday, Tuesday and Wednesday after routine proceedings and Wednesday morning? Thursday as well?

Clerk of the Committee: Thursday you have already.

Mr. Chairman: Not Thursday afternoon though.

Clerk of the Committee: No.

Mr. Chairman: Do you want to ask for that too?

Clerk of the Committee: Sure.

Mr. Chairman: They will not give us everything we ask for, anyway. Could we have a motion then?

Mr. Mackenzie: I will move the motion, Mr. Chairman. Largely due to the fact that we are going to need to the end of July and there is no point in fooling ourselves. I think that was part of your—

Mr. Chairman: Obviously, we will need to meet in July to consider the constitutional aspects of it.

Mr. McLellan: I have been watching one of my colleagues who has been working on Meech Lake and I can see the work back and forth on complex issues, as Meech Lake is taking a lot of time and a lot of work too.

Mr. Chairman: Do we need a resolution for July as well then?

Clerk of the Committee: Which dates in July?

Mr. Mackenzie: I was not trying to set a date, but it is obvious we are going to deal with the constitutional angle, provided we go ahead and get that report, which we should. Then you are not going to finish at the end of June, if that was the original intent.

Mr. Chairman: Do we come back in July?

Mr. Mackenzie: You may not need it yet. You can do it at another meeting, or I am prepared to move it whenever you want.

Mr. Chairman: Perhaps the resolution could indicate the two weeks that we want completely and indicate that we will be asking for more time in July. Could we word it that way?

Mr. Villeneuve: Preferably at the beginning.

Mr. Chairman: Preferably at the beginning of July. Any other discussion?

The motion is on the floor. Ready to vote? All in favour? Opposed? Carried.

Motion agreed to.

Mr. Chairman: So hopefully that will be discussed next week by the House leaders.

Thank you. I did not hear a bell. I presume there were no votes in the House this morning.

The committee adjourned at 12:06 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, MAY 26, 1988



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

McLean, Allan K. (Simcoe East PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Clerk pro tem: Manikel, Tannis

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

Individual Presentations:

Birch, Nicholas

Rugman, Dr. Alan M., Professor of International Business, University of Toronto

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, May 26, 1988

The committee met at 10:13 a.m. in committee room 1.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: (Inaudible) apparently was coming out of Ottawa, was prepared to get on a plane, come down here and give a presentation, fresh from having met with Donald Macdonald. Frankly, I do not know who would be supplying their plane tickets, but I smelled a political rat and suggested that we were not particularly interested in hearing from them.

I hope I was expressing the view of the committee in view of the time constraints and in view of the fact that Nicholas Birch, we all know, has been with us, as has Mr. Hemming, both monitoring every single public hearing this committee has had. Obviously, he has spent a lot of time, effort and concern about this agreement and I think it is fitting that he be invited to appear before the committee and give his presentation.

I contacted Mr. Hemming last night and he contacted Mr. Birch. I talked to Mr. Birch this morning, and it was really only this morning that he was quite certain that the invitation was solid.

So we appreciate your preparing a brief, which is being run off right now. Mr. Birch, perhaps you can lead us through it and withstand the rigours of questioning that you have seen us give others. I am sure there were all kinds of times you would have liked us to be asking questions we did not ask. Please carry on.

NICHOLAS BIRCH

Mr. Birch: I appreciate being asked to attend these meetings. My topic is the Canada-US Trade Agreement: A Concerned Citizen's View.

Canada as a sovereign nation: "To be, or not to be: that is the question:"

As a very concerned citizen of Canada, I am appalled, distressed and disgusted by the contents and implications of the trade deal between Brian Mulroney and his pal, Ronald Reagan. Because of my deep concerns for our nation's future, I have, over the past nine and a half months, attended all the provincial and federal subcommittee hearings held in the Toronto area. During this time, I have heard over two hundred people present a wide spectrum of opinion on the trade agreement and have concluded that the passage of this document will inevitably lead to the end of Canada as a sovereign nation.

The great damage to be done by the accord can be seen in four key sectors: those dealing with finance, natural resources, industry, and social programs.

Under the terms of the trade agreement, US firms will be able to buy up virtually any Canadian company so long as they obey the rules relating to the

gross asset threshold. In giving up the majority of its power to control foreign investment, our government has sounded the death knell for such an important national institution as Investment Canada, formerly the Foreign Investment Review Agency.

Next, we will lose a great deal in the banking sector. While the Americans will have assured access to our financial institutions through direct investment and a larger role for foreign subsidiaries in this country, we will not have reciprocal privileges in the United States because of the Glass-Steagall act. Although the Bank Act restricts ownership in schedule A institutions to a 10 per cent share, there is nothing to stop 10 American individuals from collectively seizing control of a company; 10 per cent each, 10 people, 100 per cent.

The defects of the trade agreement are also evident in the natural resource sector. If the past crises over softwood lumber, potash and shakes and shingles are any indication, the future does not bode well for us. Under the provisions of the Canada-US accord, we will no longer be able to subsidize our resource industries. In times of energy shortage, the Americans will have a guaranteed right to dip their greedy hands into our natural treasure chest.

Finally, we have given away our most precious resource, water. Envious arid southern states will soon be enjoying low-cost water, but at a horrendous cost to our future wellbeing.

Next, the trade agreement will bring about a harmful metamorphosis in the industrial sector. Because cross-border tariffs are to be completely removed, there will no longer be an incentive for American firms to produce their goods in Canada. Always eyeing the bottom line, corporate managers will close down less efficient branch plants operating in Canada and move production to US factories with surplus capacity. The closure of these Canadian plants will undoubtedly result in an increase in employment, that is, in the United States. Even for the branch plant operations that survive, things will not be any better.

Important research and development will continue to be done south of the border. As a result, engineers will be driven to seek work in the United States, thereby robbing us of technical expertise needed to establish a dynamic and independent economy here.

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Finally, the Canada-United States accord will devastate a pillar of our society, our social programs. Important institutions such as public health care, unemployment insurance, family allowance, and old age security will be jeopardized by American demands for national treatment.

Since the US lacks many of these programs, it could claim that such measures constitute a subsidy and thus create unfair competition. Canada would therefore be forced to either subsidize American companies operating here or to dismantle enough social programs to bring us down to the US level.

Given the fact that the greatest benefactors of the Canada-US trade agreement will certainly be businessmen, it is hardly surprising that these people are the document's most fervent supporters. It is these people who have the greatest resources to try to sway public opinion.

It is, therefore, imperative that we also listen to groups representing

the wider segment of Canadian society. Although they have fewer resources at their disposal, churches, farmers, artists, unionists, and pensioners all have equally valid concerns about the trade agreement. Government must, therefore, look to the broader well-being of society, not just to that of "the Canadian corporate quislings who have instigated the free trade deal and who are determined to make the rest of us swallow it—not for our good, but for theirs."

With its deleterious effects on the financial, resource, industrial, and social sectors, the Canada-US trade agreement is a most dangerous document. By ceding control of virtually every aspect of our economy to the Americans, Canada has turned a new page in its history. Never again will we be maitres chez nous, masters in our own house.

Thank you very much, gentlemen.

Mr. Chairman: Thank you very much. It is an interesting summary of a lot of concerns that have been expressed here. Does anyone have any questions?

Mr. Mackenzie: You have sat through the hearings almost religiously, I guess the word is, that we have conducted.

Mr. Birch: Yes.

Mr. Mackenzie: I take it you sat through some of the other hearings, as well.

Mr. Birch: Yes, with the cabinet ministers, the federal hearing held with Mr. Winegard at Sutton Place.

Mr. Mackenzie: Have you developed any particular views, other than those articulated in your presentation, as to why we are seeing this kind of a campaign to sell this agreement in Canada?

Mr. Birch: Apparently, self-interest groups—and I was quoting Farley Mowat there, on the "corporate quislings," and I would add also a fifth column such as existed in France when it was toppled over. The fifth column handed France over to Hitler. So there, the quisling was in Norway, and the fifth column was in France, or it reminds me of the same thing. Perhaps I am a little political, but I am just getting back to history.

What I am trying to say is there are interest groups that are hoping to make a fast dollar on this, but business people to whom I have chatted, are extremely worried about it. I know them, and they are extremely concerned. Some of them say: "Well, I can make some money for now, but I will eventually be snowed under." They do not know what the implications will be later on.

I spoke with one chap and he said: "If the going gets tough, I am just going to sell out to the Americans, that is all, and they will close it down." That is exactly what this person said: "I will just sell out." I can see that happening.

Mr. Mackenzie: We have made the argument—I know I have myself, and some of the questions that the various people before our committee here—that what we are dealing with is not, quote, "a free trade agreement," but an agreement that really attempts to undermine the right of a country like ours to use government intervention. It is really a decision that says the marketplace will make the decisions and the marketplace will rule, and not

necessarily the parliaments of the land because certainly some of our authority is taken away from us under this agreement. Is that, in effect, what you are saying when you talk about the business people?

Mr. Birch: That is exactly what I am saying, Mr. MacKenzie. I am saying precisely that. Ronald Reagan in his state of the union address in January stated that he is going to have an economic union from the North Pole right down to the tip of North America, I think it is called the Strait of Juan de Fuca, or something like that. I have also heard, I think it was Clayton Yeutter who said, when the agreement was signed by Reisman and Murphy in December: "You do not know what you have signed. Within 20 years, you are going to be absorbed."

Then I think you people mentioned here, when you were talking to a congressman in March, that the congressman asked you: "Why did you sign it? Within five years, you will be absorbed."

The implications are total control by the United States. In other words, our parliament will mean nothing; it might be a name. Of course, if we are the 51st state, then it does not mean a darn thing. Seizure or control of Canada is what the whole deal is all about.

Mr. Mackenzie: Just to put the record straight, you may be referring to a comment I made about a conversation between one of the senators from Minnesota and my colleague, Mr. Hampton, who over a glass of beer recently, in International Falls, made the comment: "You people sign this deal, and in 10 years we will own you." I do not think that was said to this committee, just to set the record straight.

Mr. Birch: Okay. Thank you very much.

Mr. Mackenzie: What feelings do you have about the fact that this was not on the agenda when the current Prime Minister was running for the leadership of his party in that office, nor was it a major issue during the election campaign? As a matter of fact, he was actually on record as opposing it. Do you have any comments on the fact that it has not been on the public agenda? Should this be a matter of an election before a decision is finally made?

Mr. Birch: Absolutely, because this gives him, the new words are "a credibility gap," but the old words were, "it makes him a liar." He was not honest with the Canadian people. He was not. He was sneaky, as far as I am concerned, extremely sneaky. Because of this, he had no mandate to pull this off on the Canadian people.

From my readings, studies, clippings, and what have you, I have watched the different techniques that have been used. Mr. Crosbie, or the whole gang of them, now have been trying to get everybody to hate Ontario. That has happened just on the weekend with the meeting of the four western provincial people.

What I am trying to get back to is that it was sneaky. An election should be called on this because he was dishonest, very, very dishonest. I believe, as Farley Mowat said, there was a conspiracy going on. He mentioned quislings is a conspiracy really, to push this through.

Mr. Mackenzie: My final question is also in the realm of politics because I think we are now down to the very short strokes in this country on

this particular issue. Do you have confidence that the position of the current government in Ontario, which is probably the only possible stopper of this deal, is one that is tough enough to prevent this deal?

I put that in the context of part of the play-acting that goes on in this place, with the attempt that we made to get the government to take a much tougher motion to this committee and to make it very clear in letters and with challenges, if necessary, that this province was going to fight this, whatever may be the case.

Mr. Birch: I do not know what the tactics of the Ontario government are or will be, but it should be fought. If they fight it, and the four western ministers met on a \$3-million boat on the weekend and said they were trying to get everyone to hate Ontario, so I do not know whether the technique is to lie low for a while and see if the other people come on board or not. I am not certain what the Ontario government would do.

But it is in a very good position because we have the power. You people have eight-and-a-half million or 9 million people. You have 34 per cent or so of the gross national product. You are the most powerful province in Canada. I think those people in Ottawa are scared of Ontario, and they will try every trick in the book to try to undermine you.

But I honestly do not know, Mr. Mackenzie what the Ontario government is going to do. It does not matter to me. I am a Canadian. I want all forces that are pro-Canadian to stick together and fight these scoundrels in Ottawa. That is all I am interested in. I am not going to stick with any particular party. I only want to save Canada. That is all. There are a lot of Tories, incidentally, who are friends of mine, who were with the Ontario government, and who think as I do.

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Mr. Mackenzie: I was not attempting to get you on the side of any party. Let me make that clear. The point I am making is that I do not think there is another issue that affects this country as much. I view what has happened as little less than treason by some of the federal members of Parliament in this country, so my position is probably as strong as yours on that.

My concern is that I think Ontario could have already stopped the deal had it been willing to take a tough enough line to begin with and that is why I have my reservations as to how tough it is going to be now.

Mr. Birch: I could say that if I were the Premier of Ontario, I would have been on the airwaves and TV many times with all the facts I had. I would have been spouting and exposing those people in Ottawa and their deal, and how it was going to affect Canada. I personally do not think there has been enough exposure from Ontario.

Mr. Pelissero: I would like to start by congratulating Mr. Birch and Mr. Hemming for their, as my colleague said, religious attendance at these committee hearings and others. If only 10 per cent of the population understood and had the grasp of these gentlemen with respect to the free trade agreement, I would maintain that the debate would be different, that you would, in fact, see a different set of discussions. The debate would certainly have been shaped differently. That is the whole thing, whether it is talking to my constituents— Certainly we have seen that in the polls, that, yes,

people support the concept of free trade, and this is something the Premier (Mr. Peterson) has been saying, but we do not think this particular deal is in the best interest of Ontario.

I think your last comment to Mr. Mackenzie in terms of getting the facts and really exposing what this deal is all about is an approach the Premier and the government have attempted to take. Sometimes when you have individuals such as Mr. Crosbie shouting that the Senate is nothing more than people hiding gnomes and things like this, it tends to distract. I think that is a tactic they use very effectively in terms of trying to get away from the facts. Again, if only 10 per cent of the population knew what you two gentlemen know in terms of understanding the implications of the deal, the debate would be different.

I guess I have a question in terms of, first, your background. Maybe you could just get it on the record. Second, maybe just to expand a little more on what Mr. Mackenzie identified as part of your sitting in on the committee hearings, have your views changed in certain areas and have they been reinforced in certain areas with respect to this agreement?

Mr. Birch: I knew from the beginning that the deal was no good, because I learned many years ago that the Americans never sign an agreement unless they get the upper hand. I learned that many years ago, so I am always suspicious. Right off the bat, I said: "Lo and behold, there's some rot coming out. There's something rotten in Denmark."

Mr. Haggerty: He has got a little of Sir John A. Macdonald in him.

Mr. Birch: Right from the beginning, I knew there was something happening here. It was just a matter of, as things were emanating from Ottawa and various speeches were made, gradually picking up tidbits of information and compiling them. I knew darn well it was bad for Canada, right from the beginning.

Mr. Pelissero: Maybe just expand on your background and line of work.

Mr. Birch: I am retired; usually I have kept this a secret. I have been a teacher for 30 years. I have taught history, math and sciences.

Mr. Pelissero: Excellent.

Mr. Birch: I retired a year and a half ago, but I was a high school teacher in Ontario for over 30 years. I have always taught the kids to be inquisitive, not to take any person's word for it, to dig deep and get various opinions and find out what's what. I am practising what I preached.

Mr. Pelissero: It is certainly good advice and you are to be commended for your interest and attendance at the hearings.

Mr. McLean: In your brief, you mentioned that 10 American individuals could collectively seize and control a bank.

Mr. Birch: Yes.

Mr. McLean: Could that not happen now?

Mr. Birch: It can, but it has not happened. With the open-door policy we have in this trade agreement on the financial institutions, anything

can happen. I cannot predict what will happen. My guess is that they will probably buy up the smaller banks first. I do not know what will happen in the United States, what their business dealings will be or what their thoughts are regarding acquisitions.

Mr. McLean: But the question I asked was: Could that not happen now, as the legislation is today?

Mr. Haggerty: If it could happen now, they would be in here now.

Mr. McLean: Well, they are.

Mr. Haggerty: Oh, no. It is under special rules. You do not see Chase Manhattan here.

Mr. McLean: I was curious about that.

Mr. Birch: The rules are still in, as far as I know, but with the new financial agreement, or whatever is in the trade agreement, they have open doors.

Mr. McLean: With regard to, I guess it is Bill 88, the bill to deregulate the trucking industry that the government is bringing in, which would allow Americans to come in and buy Laidlaw or any of the trucking companies, what are your comments on that?

Mr. Birch: I spoke to a chap who has a trucking business at Lake Simcoe. He is going to be devastated, absolutely finished. He said deregulation will put him out of business. He is very concerned. I chatted with him. I was in the local hardware store. Somehow we got on the trade business, and he told me that he was the owner up there and he was going to be finished.

Mr. McLean: For a government that is opposed to free trade, why would they want to deregulate to allow the Americans to come in?

Mr. Chairman: This witness is not representing—

Mr. Birch: God only knows.

Mr. McLean: I want his opinion on it. He is talking about it in his brief, about the Canada-US accord and if that is not part of an accord, Ontario-US, I do not know what is.

Mr. Birch: It is wide open. The floodgates have been left wide open and they can do whatever they wish. In other words, it is national treatment. Everything is national treatment now. The Americans can do anything they want here, as they do in the US. Anything.

National treatment covers any darned thing, and if it does not, or it is not implied, then the Americans will say, "That comes under national treatment. You are not fair, you are subsidized, you are doing this, you are doing that." That is how they operate.

Mr. McLean: The other question I would like your comments on is that the business community in Ontario supports free trade. Why would they support it if they do not think it is a good deal?

Mr. Birch: My guess is that they cannot see beyond their noses, or if they have power, then perhaps they do not care. As I mentioned earlier, if the going gets tough from American competition or American companies producing so darned much, shipping it to a warehouse here, they will say, "What the heck is the use of being in business? It is better to just sell out, get my money and retire." That is the easy way out and that is what this chap who has a trucking company said. He would just pack it up and go.

Mr. McLean: I can understand that. I now know of a company from the US that is going to build a new plant in Ontario. Why would they come here to build now? You have been through these hearings. I have not. I just have some of these questions I am curious about, that is all.

Mr. Birch: My guess is, not everyone will be knocked out. There are specialty areas, specialty businesses, specialty commodities and so on. Those will survive, but if it involves large runs or whatever, those people will disappear except for the odd person.

For example you will have a machine shop or a tool and die maker, for example Frank Stronach. His is a specialty company. He specializes in that particular area and he is very strong because of that. In that way he can hold his own, but if it is other people, they would never hold their own, so they would just collapse. Frank Stronach is extremely strong because he is into high technology, making automotive parts.

Mr. Kozyra: Mr. Birch, I would like to share something with you and the committee. Over the past six months I have had some difficulty selling this opposition to free trade in Thunder Bay. Certainly the unions were against it and would have no difficulty there, but that is primarily NDP territory and they are doing their job.

As I understand my being elected, to be elected I had to have a strong swingover of Conservative votes. Certainly the majority of those people were looking at free trade as a fairly good deal, as part of their business orientation. I must say also that some of the more business plugged-in Liberals as well were looking at it that way. They would question it, they would advise to maybe go slowly on this. The forest products industry up in the north is very much in favour of this, going slowly on it.

I had difficulty convincing them. Part of it was that when you try to argue on the basis of specifics, one thing against the other, there is always a counter-argument. We may be losing there, but we are gaining here and so on.

However, something has emerged in the last week. In fact a week ago today we had a meeting with them and Richard Patten was in town for a government building unveiling. We met again with about 10 mostly prominent Liberals and that question came up. What came up was a kind of focus that has developed now that we have listened to it all. Things have been changed and clarified. Two points more than anything clarified it for them and for us. One was that the rationale for the relationship between the two countries now will, almost totally, fall along the lines of market-driven forces in their relations. They will take pre-eminence over all kinds of other considerations—philosophic, social, whatever. The market-driven forces will be the determinants.

The other thing was the sovereignty issue. Although people thought it was important, it never seemed to really inspire people. You know, you wrapped yourself in a flag, but you were seen as a fanatic or something. This came out

of our caucus, in a way, and we were able to share it with them. We said that, once this agreement is signed, it will change the course of Canadian decision-making forever in that every major Canadian decision that will be made will now have an extra partner at the table influencing that decision. When it was put that way, all the opposition or scepticism to the opposition to the free trade deal at that meeting evaporated. They said, "We have never heard it expressed that way, never thought of it that way before," the impact was there.

I think, over the past six months, it has boiled down, for me as well, into those two issues that really wrap up the whole thing.

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Mr. Birch: They do, thank you.

Mr. Ferraro: Let me, as well, join my colleagues in thanking both you and Mr. Hemming, Mr. Birch, for your dedicated attendance here.

Mr. Birch: I am sitting in a different chair, Mr. Ferraro.

Mr. Ferraro: Yes, you are.

Mr. Birch: I have never warmed it before.

Mr. Ferraro: With the same smiling face. Anyway, a couple of questions come to mind. The first one is a little off topic but I think it may be important for the committee to hear your answer, in that you attended some federal committee hearings on the issue as well. It is a two-part question. How would you compare the Ontario legislative committee dealing with the free trade bill with the federal one, if you can make that comparison, and, second, what would you do differently if you were on the provincial committee?

Mr. Birch: This committee has been excellent, really. I have enjoyed it very much. I was at the subcommittee of the six cabinet ministers, Lily Oddie Munro and the rest of them. I was in those meetings starting in September and up until, I think, December. But first of all, I will compare the federal one with here. Mr. Winegard was the chairman of the federal one across Canada and the ironic part was that they had a meeting at Sutton Place on Friday, December 18, and at one minute to midnight, December 17, Reisman and Murphy signed the deal in Ottawa, so it was just a superfluous meeting.

Mr. Winegard tried to cut out one individual, an actor, who was acting in the place of William Lyon Mackenzie. Anyway, he was trying to get him to keep quiet, but this chap was part of the actors' and actresses' guild that was presenting their brief, and Mr. Winegard did not like it. In my typical, democratic fashion, I asked Mr. Winegard if he believed in democracy any more, so he had to let this chap speak.

Mr. Chairman: We have a better chairman.

Mr. Ferraro: A much more modest chairman, if nothing else.

Would you do anything differently if you were on the Ontario committee?

Mr. Birch: Not really. It was very short, cut and dried. I think this one had more input to it, really. I think there was more democracy here than there was there, from what I saw on that one day only. I thought it was

much better. There were more people here. Of course, there was only one meeting, but, at least, I think you people—

Mr. Ferraro: The second question I have, both you and Mr. Hemming obviously deserve a lot of credit. Fortunately, you have the time and the desire to attend, which is another important factor.

Mr. Birch: Yes, we are retired.

Mr. Ferraro: Do you, personally, make a distinction between whether or not—and I think this is a crucial question—one should support the idea of free trade, as opposed to this deal, or are they synonymous in your mind?

Mr. Birch: I think the whole thing should be scrapped, everything. Whether it is free or just a trade deal, the whole thing should be scrapped.

Mr. Ferraro: That was my third question.

Mr. Birch: Pardon me.

Mr. Ferraro: That is fine. I guess what I am trying to get at—and I concur with you, to some degree, and I suspect all governments could probably always do more, is that not only is this particular deal an extremely difficult topic for the average Canadian to try to understand, but I think, and I ask for your comments on this, there has to be a distinction. For example, I support free trade personally, but this deal is lousy. There is a distinction, in my view. Do you make that distinction, Mr. Birch, or is it such that it is impossible to make that distinction?

Mr. Birch: As I said a moment ago, I would scrap it and start from scratch. I would not talk about "free" at all, because nothing is free about it.

Mr. Ferraro: Fine. Let me ask you another question. I appreciate that. If you can, let's hypothesize. This deal does not exist. Some of us wish it did not. Do you believe in freer trade?

Mr. Birch: I believe in equitable trade, definitely, with anybody, not just the United States. I would not want to be strapped to the American wagon. I would not want to be hitched to it at all. I am for trade with the whole world. I have many notes here. Unfortunately, I could not squeeze them into this time or you would have been here for two or three days listening to me. I am for trade, definitely, but this deal is no good.

Mr. Ferraro: This is the last question I have, and I want to editorialize a little bit here, because I do not want people to think it is my position. Some people may unnecessarily attribute some of the things I say as being my philosophy, which is not necessarily the truth. The point is, if you study the implementing legislation that exists now, some people have said that to challenge it in the courts would result not only in some degree of contradiction of Meech Lake but, to a greater degree, a greater infringement on provincial jurisdiction; Scott Fairley, for one. In other words, you could be opening up a can of worms to the degree that our present authority and areas of jurisdiction would be seriously affected.

Would you, if you had the power, risk all that, tear up the deal and do whatever you could?

Mr. Birch: If I had the power, definitely, I would tear it up. I have talked with hundreds of people. I have given out literature to hundreds of people. It is surprising how many people out there do not know anything about this deal. I nailed it down to Mulroney's having a conspiracy of silence. I have watched how these guys operated and are operating. I am just going to quote Crosby. Yesterday or the day before, he said, "Oh, Canadians have been discussing this since September."

What a lot of hogwash. Horsefeathers. It is a lot of nonsense. They purposely kept it quiet. They put these little bits of paper, which have been converted into toilet tissue, in the Dominion stores and Loblaws stores. I hope the bit that Mulroney uses has a lot of sand on it so that it is very abrasive. Anyway, the people I have talked with are glad to get any bits of information from me, so I have been doing a real job out there, real missionary work, believe me. I have talked to every type of person you could think of in subways, stores, buildings, teachers, you name it, anybody, anywhere I go. I have everybody converted up at Lake Simcoe.

Mr. Ferraro: It is the first time I have ever heard anybody talk about free trade as being a religious experience.

Mr. Haggerty: What part of Lake Simcoe?

Mr. Birch: Beaverton. That poor chap there was kicked out, Stevenson.

Mr. Chairman: The last question is to Mr. Haggerty.

Mr. Haggerty: I want to show my appreciation to Mr. Birch and Mr. Hemming for their presence here for the last number of months to listen to what is going on.

I was interested in your comments this morning and share your concerns that you have expressed this morning. Now that we know that your true position is that you want to shelve the free trade agreement, what is the alternative to it?

Mr. Birch: The alternative is to accept the fact that Canada will not collapse. We will still be here. Another person I spoke to was my watchmaker. He said: "Put a barricade at the borders. Let's build our own automobiles. To heck with them. We will survive." That is what this chap said. Actually, we will not lose out. We cannot. The Americans will be tough. That is fine. It might be tough for a while, but I just cannot stand the intimidation. I will not bow to the Americans and their intimidation. That is what it is, really. It is scare tactics. Mitchell Sharp was here and he mentioned fear. I agree 100 per cent with Mr. Sharp.

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Mr. Haggerty: He did say "bargaining in fear."

Mr. Birch: Sure. That is all it is. If I were Prime Minister of this country, I would tell Ronald Reagan to soak his head to soften it up a bit.

Mr. Ferraro: The dye would probably come out.

Mr. Birch: It is fear really, and this is what people are worried about. I mentioned the softwood lumber, shakes and shingles, potash, fisheries, textiles, the film industry—

Mr. Haggerty: Water.

Mr. Birch: —water. They are all caving in on it. Why should we? Why the heck should we cave on it? This is our sovereign country, and that is what my topic is. To be or not to be, that is the question, and that is what I am answering.

We have everything here. They are bankrupt down there, and I have read just recently that the Japanese are studying the American market, and if the American market is not prosperous enough, they might pull out all their bond money. If they do, the whole place is going to collapse. That was in, I think, the weekend paper.

Mr. McLean: We are further in debt than they are.

Mr. Birch: We are, definitely. We are, but we will survive.

Mr. Haggerty: But there are other alternatives?

Mr. Birch: Oh, sure. What is not happening is that—the young people will not have a chance. In other words, we will be the hewers of wood and drawers of water. The kids I saw in the schools, for gosh sake, what chance do they have? Nothing. If your research and development is all in the United States and everything is run from there, that is where the jobs are.

Here they keep talking about service industries. I think it was Ms. Maxwell who was here with her chart. I pointed to her and her chart. In the service industry, about 95 per cent of all the jobs were service industries. Manufacturing and what have you were way down on the bottom, about two or three per cent, for God's sake. So that is what is going to happen.

I have faith in this country, but the boys in Ottawa do not, and the others. As Farley Mowat said, they are corporate prisoners.

Mr. Haggerty: The question is, when do you become a Canadian?

Mr. Birch: Pardon me?

Mr. Haggerty: The question is, when do you become a Canadian?

Mr. Birch: Oh, when.

Mr. Haggerty: Yes, that is right.

Mr. Chairman: Mr. Birch, I thank you very, very much for sharing your feelings with us. You have done it very well and in a very impressive way. We really do appreciate your joining us in this whole investigation.

You obviously feel very passionately about this, and as some of the members of the committee have said, it is too bad there are not more Canadians who have the time. I suppose we cannot blame people who have to work every day, but at the same time it is too bad there are not more Canadians who do have the time who do not avail themselves of the opportunity to become as familiar with this important issue as you have.

Mr. Birch: Thank you for allowing me to be here. I just wanted to express my thoughts and I felt I have been here so often you are all related to me now. You are all relatives.

Mr. Chairman: Yes.

Interjection.

Mr. Birch: Oh, I will, definitely. I am supporting the Niagara grape growers.

Mr. Chairman: Yes, I was just going to mention that. If there are any committee members who do not know it, Mr. Birch has a vested interest, in the sense that he is an Ontario wine producer from Islington. There are fine samples in the chairman's office any time anyone wishes to sample.

Mr. Birch: I will not buy American grapes—my pledge. Thank you very much, Mr. Chairman and honourable members, for allowing me to be here.

Mr. Chairman: Thank you very much for joining us.

Mr. Birch: I will go back to my old seat.

Mr. Chairman: Our next presentation is by Alan Rugman, professor of international business at the faculty of management at the University of Toronto. Mr. Rugman, welcome and have a seat.

Mr. Rugman was present at a national conference on the free trade agreement which was held at Osgoode Hall Law School at York University in March. I was present at that conference as well and met him and had a conversation with him at that time. Also, it may have come out in some comments I made in a debate with a federal cabinet minister that I perhaps did not know enough about the adjustment process and perhaps this committee did not know as much as we should about the adjustment process that has already been going on to some degree. I had been critical about a certain lack of communication between the two levels of government in that regard.

Dr. Rugman is a member of the International Trade Advisory Committee, ITAC, and sent me some material which has been distributed to you about that and about the sectoral advisory groups on international trade, SAGITS. He has a brief, of course, which is in front of you.

Welcome to the committee, Dr. Rugman. Perhaps you could lead us through your brief and entertain some questions.

To committee members, it is expected there will be a division at about 11:50 a.m. We have maybe three or four minutes of housekeeping we have to do before that.

DR. ALAN M. RUGMAN

Dr. Rugman: Thank you, Mr. Cooke, for the invitation to appear before the committee. Perhaps I could just briefly indicate to the committee that I have been studying international trade and finance for about 20 years. I came to Canada in 1968 and did my doctorate at Simon Fraser University. Then I taught at the University of Winnipeg from 1970 to 1978. Then I had a year teaching at Columbia University in New York. I have also lived in Montreal.

From 1980 to 1987, I was at Dalhousie University as the director of the international business centre there. I was invited to be a member of the federal government's International Trade Advisory Committee in that capacity, as director of that centre. I was the only professor on that committee. The

rest of the members were mainly businessmen. It also included people from the Consumers' Association of Canada, and so on.

The reason I am here today is that I was recruited by the University of Toronto a year ago and I am currently the research director for the new Ontario Centre for International Business. I would like to commend the province for the initiative it has shown in setting up this centre of excellence.

I think all of us in this room will share the same vision for the future, that it is imperative that Ontario has the capacity to train managers who can get us into new markets in Asia and back into markets in Europe. I will be very proud to be associated with the centre as we move towards this long-term objective.

The introduction to my paper builds upon that. Turning to my brief: It is apparent that the economy of Ontario is already well integrated with that of the United States. The free trade agreement does not change this. It merely recognizes this fact of economic life.

The extent of this existing economic integration is well known. It is reflected by both trade and investment data. First, I would like to review the trade data. Perhaps you might like to look at table 1 on page 21 of this brief.

In table 1 it can be observed that in 1986 the United States was the destination for 90 per cent of Ontario's exports. Over the period from 1977 to 1986, the United States accounted for an average of 84 per cent of Ontario's exports. Table 2 reports a similar degree of dependence by Ontario upon the United States for imports. Recent data on commodity trade are reported in table 3. These data indicate that, in 1986, Ontario accounted for 52 per cent of Canadian exports and 64 per cent of Canadian imports of commodities.

Together, these tables demonstrate that trade with the major economies in Europe and the Asia-Pacific region has not yet developed to any meaningful degree. This is the challenge of the 21st century, to diversify trade patterns for Ontario and Canada. It will not be easy.

Today, Ontario's trade dependence on the US market is immense and it will remain so for the foreseeable future. In 1986, the top 10 Ontario exports to the United States by industrial grouping were greater than the leading export to any other market in the world. Further evidence of the export orientation of the province is provided in table 4. Ontario's exports account for over 30 per cent of gross domestic product, higher than for Canada at 24 per cent, Japan at 13 per cent and the United States at around 5 per cent.

In my opinion, these statistics demonstrate that Ontario and Canada are wedded to the United States. It follows that it is of paramount importance to secure access to this vital market from the recent abuse of US administered protection. Without this secure base it will be difficult, indeed impossible, for Ontario to diversify its trade into the new markets of Europe and the Pacific. I shall return to this part later in discussion of the new dispute settlement procedures.

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Access to the United States market is step one towards globalization of Canadian industry. If Canadian firms cannot make it there, they cannot make it anywhere. Step two will involve developing strategies to compete against rival

corporations based in Japan and the European Community which, together with North America, make up the triad of global business. .

The emergence of large multinational enterprises has changed the face of international business in the last 30 years. Today, some 500 multinational enterprises control over half of the world's exchange of manufactured goods and services. There are now over 10,000 multinational enterprises, but the largest 500 account for at least 80 per cent of all this foreign direct investment. The total value of the sales of these 500 giant multinationals amounts to over 20 per cent of the world's gross domestic product and over half of the world's traded output. These large multinationals come mainly from the triad markets of Europe, the United States and Japan.

The managers of these giant multinationals wield enormous economic and political power. Entire nations have experienced the effects of global competition among them. Even the United States has felt the repercussions of international competition. It is no longer just a home base for overseas investment, but also a host nation. US multinationals must now fight foreign rivals at home and abroad for market share and profitability.

Other writers have analysed the significance of these large multinationals and deduced that there is extreme competitive rivalry among them. The most influential is business consultant Kenichi Ohmae, whose work on triad power has changed the thinking of many managers. I might say parenthetically that it is a pity it has not changed the thinking of more of our bureaucrats and politicians.

Ohmae sees intense competition between multinationals based in the triad markets of Japan, the United States and the European Community. His vision of the world is realistic. It is an antidote to those who still seem to believe in monopoly capitalism and American hegemony. Today, it must be clear that the multinational enterprises of the United States are being challenged by Japanese and European ones. Any perceived rents are being eaten up by the dynamic forces of global competition.

In a world of triad power, it is clear to Canadian business that secure access to the market of one of the triad powers is essential. It does not take much deductive ability to work out why the United States market is more attractive to Canadian business than are the protected markets of the European Community and Japan.

I ask the critics of the free trade agreement, what is your alternative? Can a new deal be negotiated with the United States now that the fast-track process would be lost? As you know, Mr. Chairman, by vetoing the omnibus trade bill the President loses authority to negotiate any international treaty, including provisions on the fast track. Can Ontario strike a better deal through the General Agreement on Tariffs and Trade? Can Ontario live up to its current obligations to the GATT? How would any alternative deal work in the world of multinational enterprises and global competition?

In the next section I talk specifically about the role of Canadian multinationals. This will lead me into discussion of the adjustment issue.

Mr. Ferraro: Can I interrupt you, Professor? Would you repeat what you said about what happens if the President vetoes?

Mr. Chairman: It had grandfathered out on January 2. I do not think it had anything to do with the omnibus bill, but I may be wrong.

Dr. Rugman: The omnibus trade bill, as far as I understand it, gives the President the negotiating authority to conduct international treaties, including the GATT.

Mr. Chairman: That is the present legislation, though.

Dr. Rugman: That is correct.

Mr. Chairman: I thought you meant the new bill.

Dr. Rugman: With the omnibus bill having been vetoed, unless a new bill were to come from the Congress to the President, his authority to continue with the GATT round automatically lapses and would not exist to enter into any negotiations, including the fast-track process we have just been through.

Mr. Pelissero: How does it affect the current free trade agreement?

Dr. Rugman: The free trade agreement has been negotiated and signed by the President, so now the enabling legislation, if it is passed in Congress and Parliament—

Mr. Chairman: If he wanted to reopen it, he would have no power to do anything at the present time.

Dr. Rugman: That is correct.

Mr. Pelissero: Unless something came from Congress.

Dr. Rugman: Yes, both the bilateral and multilateral routes would be closed unless a new omnibus bill comes from Congress, giving the authority to the President to conduct negotiations.

Mr. J. B. Nixon: I assume these are rhetorical questions you are asking. You say, "Can Ontario strike a better deal through the GATT?" We know that Ontario does not participate directly in the GATT discussions. So it is a rhetorical question.

Dr. Rugman: Yes. I believe that people have offered some answers to most of these.

How does business in Ontario fit into this new dynamic global economy where triad power matters? This province is the home to many of Canada's "megafirms," a word I coined in some earlier work. These are defined as Canadian-owned multinationals competing in mature and resource-based industries for the most part, with annual sales of over \$1 billion Canadian.

These firms have marketing and managerial skills, which means they are no longer hewers of wood and drawers of water. These megafirms share a record of success in international competition: Abitibi-Price is a world leader in newsprint; Inco in nickel; Moore in business forms; Northern Telecom in communication systems; Noranda in forest products and minerals, and so on.

Ontario is also the home base of important US subsidiaries operating in Canada. These multinationals include the Big Three auto makers, IBM Canada, Canadian General Electric, Du Pont Canada, Imperial Oil and Dow Chemical, to name a few.

Ontario, and Toronto in particular, is fortunate to be a player in the big leagues of global competition due to the presence here of these large multinationals.

The Canadian multinationals, which I call megafirms, plus the US subsidiaries operating in Canada, account for 70 per cent of all bilateral trade between Canada and the United States. These data come from a report which has recently been released by the Economic Council of Canada, and I brought copies of this material for you if you would like to circulate it to the committee.

For these multinationals, free trade is nothing new. These firms exhibit a pattern of cross-investment across the border and of intrafirm trade between the parents and their subsidiaries. For these megafirms, over 70 per cent of their trade is intrafirm trade, that is, trade between parents and subsidiaries. I have calculated that over the last decade, Canada actually averages a surplus on this intrafirm trade.

The point that I am making is that the US subsidiaries in Canada import more than they export from their parents. They import on average 27 per cent of their sales, but they export only about 25 per cent to 26 per cent. They do export, though. But the Canadian-owned subsidiaries in the United States purchase six times as much from Canada as they sell back to Canada. The reason they are in the United States is to sell in the US market. If you put those two figures together, we actually run a surplus on this trade done internally by these two sets of multinationals. Ontario's multinationals are already integrated in the North American market and they are well positioned to compete in the global economy.

I have gathered data on the viewpoint of senior management towards the adjustment process following trade liberalization. The first survey included the largest Canadian megafirms and the US subsidiaries in Canada. The questionnaire was sent to the chief executive officer of each of these firms in April 1987. A second survey was done of the Canadian multinationals early this year. Soon, I will survey the US subsidiaries. I asked for their analysis, as strategic planners, about the impact of trade liberalization upon the operation, performance, marketing and employment of their firms.

The single most important finding of this questionnaire is that trade liberalization will be welcomed by these megafirms. The following is a brief summary of some of the findings of this survey:

- (1) multinationals can bear the costs of adjustment themselves;
- (2) there will be few plant closures;
- (3) bilateral trade and investment will both increase; and
- (4) these large firms will continue to prosper.

Perhaps I will omit the discussion of this adjustment process, as this material has already been published. Let me just summarize it by saying that these are the reports from the players, the managers of these large firms. If they say they can handle the adjustment process and if these firms account for 70 per cent of all the bilateral trade, I think we need to interpret the responses very seriously.

I also indicate, in passing, on page 8, the middle paragraph, that you have heard I believe similar evidence about the response of small business. Mr. Bulloch from the Canadian Federation of Independent Business has also done surveys, and from reading his testimony to you and to your questions, it also appeared that small business was largely supportive, not just of the idea of free trade but of the actual free trade agreement which has been negotiated. I believe you have also heard from the Economic Council of Canada about its surveys of the impact.

I will turn to page 9, the second paragraph. To summarize, I have demonstrated the existing economic integration between Ontario and the United States; the new global competition and triad power; and the capacity of Canadian firms of all sizes to adjust to Canada-US free trade. This analysis suggests that secure access to the US market is vital to the future success of Canadian firms. Market access can be secured through either trade or investment. I would like to discuss both of those issues in more detail.

First, I will discuss investment. The investment chapter of the free trade agreement sets an important precedent for international commercial relationships. As is well known by now, but perhaps not well understood, the free trade agreement enshrines the principle of national treatment for direct investment in both countries. This means that regulations that discriminate against foreign investors are not to be allowed. Instead, American investment in Canada and Canadian investment in the United States is to be treated no less favourably than domestic investment in each country. This national treatment provision covers the establishment, acquisition, conduct and operation, and sale of business enterprises.

At this stage it should be noted that national treatment does not mean that US and Canadian regulations need to be harmonized. All that national treatment means is the equivalent application of Canadian or US laws to the foreign and domestic firms operating in either nation. However—and I emphasize this point very strongly—Canada can have a different set of laws than the United States. For example, Canada can apply tighter tax and competition policies than the United States; they just need to be applied equally within Canada to the Canadian-owned and foreign-owned firms.

This implies, for example, that Canada and the provinces can design whatever policies they want to in regard to health, social and educational programs. For example, the rules must be equivalent for Canadian-owned and US-owned day care centres in Canada. But Canada can have a different regime and set of standards than the Americans may establish. In any case, all of these social and health-related sectors are completely exempted from the national treatment provisions of the agreement as they are not included as a "covered service"; only commercial services are covered in the free trade agreement.

Canada can even have an industrial policy. The structure required is the use of imaginative tax and competition laws rather than discriminatory policies against foreign investment. Interventionists should like the free trade agreement for this reason. Any future left-of-centre government would not have to harmonize to US market forces.

To further maintain Canadian sovereignty in sensitive areas, several key sectors were explicitly exempted from the national treatment provisions of the free trade agreement. These include: culture, communications, transportation, oil and gas, uranium, crown corporations, all workers in government-related services such as health and education, and agricultural support programs.

The current nature of the Investment Canada Act is retained, i.e., Canada retains the right to a screening agency. The threshold level for review of foreign acquisitions will eventually rise to \$150 million, which will still cover all substantial foreign investments. I believe you have heard Professor Safarian, a colleague of mine at the University of Toronto, testify on these investment aspects.

I now turn to the next section, which I believe is quite critical. It is about the new dispute settlement mechanism. Another means of securing access to the United States market is through trade. Secure access for our exports enables us to share in the direct employment benefits of doing business with the United States. In the free trade agreement with the US, Canada made considerable progress towards this access by addressing the problem of US administered protection and insisting on a binational dispute settlement mechanism.

Administered protection is a generic term which I use for the application of penalties against imports, justified by the quasi-judicial process in which domestic petitioners can seek legal remedies against allegedly subsidized foreign products. The penalties imposed were a form of protection which is contingent upon the application of trade remedy laws by government. Agencies created by statute investigate and determine injury and sanctions to be imposed in the areas of countervailing duty, antidumping and other trade-related actions.

From January 1, 1989, Canada and the United States have agreed to a new binational appeals mechanism which can be sued to offset abusive trade law procedures in either country. No other free trade agreement in the world has similar restrictions on the ability of a member country to take action under its countervailing duty and antidumping laws.

How the binational panel works in practice will depend upon the cases referred to it. The mere existence of the tribunal should deter frivolous and dubious US petitions. To cases appealed from the US legal system the panel will apply the US standard of judicial review while cases appealed to the panel from the Canadian system will have the Canadian standard of judicial review. Since the scope of US judicial review takes in the administrative record, while Canadian judicial review by the Federal Court is limited essentially to the narrower questions of natural justice and due process, Canada obtains an advantage over the United States when utilizing the new review process.

The new binational panel puts in place a mechanism for Canada to influence, and potentially reverse, the questionable investigative practices of the US International Trade Commission and the US Department of Commerce in their gathering of data and analysis. Article 1904(2) of the free trade agreement provides for a panel review based upon the "administrative record" which is defined in article 1911 as including "all documentary or other information presented to or obtained by the competent investigating authority."

Members of the panel, which will include at least two Canadians, will be able to review the administrative practice used to deal with material constituting the administrative record and bring their expertise to bear on the question of whether this information was dealt with properly. In this way economic evidence, already put on the administrative record in future cases by defence lawyers, can be reviewed by the binational panel.

One questionable administrative practice of the Department of Commerce

that could be addressed by the panel concerns the measurement of industry support for a petition. Currently, it is the practice of the department to send out questionnaires to industry members to determine whether, as is required by US law, producers comprising a major proportion of domestic production support the petition. In tabulating questionnaire responses, Commerce has developed the highly questionable presumption that those firms that do not return questionnaires support the petition. This procedure would clearly be unacceptable to Canadians on a new binational panel.

As my time is somewhat limited, in the next few pages I review the legal opinions you have been receiving and, to summarize what I am saying, I believe that these legal opinions are flawed because they do not address the economic substance of US trade law. US trade law has trade in the title as well as law. It is imperative that the documents you review examine the economics of it. What I am saying here is very simple. I believe that the binational panel will review the economic substance of the decisions and our businesses will therefore have a better hearing through the binational panel.

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Let me turn to my final substantive point on page 17 which is about the federal government's process of consultation with the private sector through the International Trade Advisory Committee, ITAC and the SAGITs, the sectoral advisory groups on international trade.

The free trade agreement clearly makes substantial progress in securing access to the US market through trade and investment. Thus, it is not surprising that business supports the agreement. Canadian business understands the reality of global competition within the triad markets, the rise of US administered protection and the need for secure access to the US market. Furthermore, Canadian business played a major role in shaping the agreement through the consultative process.

The interests of Ontario in the negotiation of the free trade agreement were represented in the dual-track consultative process. Details in the Canada-US free trade agreement reflect Ontario's input. In addition to the formal quarterly first ministers' meetings, there were frequent meetings of provincial trade delegates with their federal counterparts. Further, the agreement incorporates many of the concerns of Ontario's private sector expressed through its membership on the ITAC and SAGITs.

Table 5, which is the last one in the brief, contains a breakdown I made this week of the membership of the SAGITs. It reveals that 41 per cent of all SAGIT members are from Ontario. This is greater than Ontario's share of the population which is 36 per cent. The ITAC representation is precisely 36 per cent, if you include me as an Ontario person rather than a Nova Scotia person.

Membership in the SAGITs reflects the key contributions made by certain industries to the provincial economy. For example, Ontario's representatives comprise 65 per cent of the SAGIT for minerals and metals, 59 per cent of the SAGIT for financial services, 57 per cent for chemicals and petrochemicals, 53 per cent for general services and 50 per cent for automotive and aerospace. Four other SAGITs, for a total of nine of the 15, have 40 per cent or more members representing Ontario. Ontario even accounted for 29 per cent of the members of the energy products and services SAGIT and 12 per cent of the fish and fish products SAGIT.

My conclusion is as follows: The free trade agreement recognizes the

economic realities of global competition. Some critics have argued, and you heard this earlier this morning, that the agreement contains a hidden agenda to unleash market forces against a wide variety of political and social concerns. In my analysis, this is nonsense; Canada's social policies are exempt and sovereignty is retained.

Today, 70 per cent of Canadians work in the service sector but, in my analysis, half of those industries are exempted from the agreement. Only the covered services in business were included. The services exempted include anybody working in transportation, anybody working in health, all people working in child care and in nursing homes, everyone in education and everyone involved in culture. In addition, marketing boards in agriculture have been exempted. Hence, Canada retains the right to use many instruments of economic and social policy should future governments so choose.

Canadian sovereignty remains intact under the agreement. Even with national treatment any future government could initiate an industrial strategy using fiscal and competition policy. The only brake on the use of such policies is the knowledge that Canada is not and cannot be an economic island unto itself. The same is true of Ontario.

One last point needs to be made regarding the proceedings of this legislative committee. Much of the previous testimony that I was able to glance through represents the interests of producers and not of consumers. This asymmetry is all the more disturbing because it is the consumer interest which contributes to the national interest. Ontario needs to consider very seriously the voices of all its citizens and remember the concerns of Canadians outside of the province.

Mr. J. B. Nixon: Mr. Rugman, you sort of throw in this comment at the end of your presentation that much of the previous testimony represented the interests of producers and not of consumers. I suggest to you that you are guilty too of the same fault, if that is a fault, because we have heard a lot from you about the needs of producers and exporters and importers, but in fact that is the only thing you said about consumers.

Having said that, I would just like to go back in your brief to page 5. You say that Canadian megafirms account for 70 per cent of all bilateral trade and you say that for these firms free trade is nothing new. As if to support that, you say Ontario's multinationals are already integrated into the North American market and they are well positioned to compete in the global economy. In your oral presentation you argued about the need for these companies to diversify because of their dependence. You did not use the word "excessive," but I think the excessive dependence on the United States market is implicit in your statistics.

Further on page 6, you argue that under the free trade agreement these firms will continue to prosper. On page 7, you come to what the reasoning is behind the decision of these megafirms to support the trade agreement, which is a fear that the prevailing view is that the status quo is becoming one of increasing protectionism.

What I am suggesting to you, and I am asking you to comment, is that the guys who are making Canada rich, in your view, are already free trading and are doing quite well. They do not need an agreement but, if one comes along, they are happy with it. The only reason they think we should do it is because somewhere out there is this lurking fear of increasing protectionism. Can you comment on that? That is what I deduce from your presentation.

Dr. Rugman: Mr. Chairman, Mr. Nixon has it half right and half wrong.

Mr. J. B. Nixon: Show me where I am half wrong.

Dr. Rugman: OK. Let's get on to common ground. You are right because we have multinationals which operate in the US and they are partly there to have access to that market. So this is my theme, that there is this economic integration. You are also correct in the point about the firms being able to handle the adjustment issue. Basically, our major multinationals are immunized against free trade, with or without free trade. Because they are engaging in investment, not just trading from Canada and exporting to the US, they are largely immunized.

What I do not think we share, though, is your interpretation that US protectionism is somewhere in the future. US protectionism has escalated since the last GATT round allowed individual American corporations to use the trade remedy laws in an aggressive manner. I have a study called Administered Protection in America, where I read all of the 50 cases involving Canada between the 1979 to 1986 period. The point of that is that individual American corporations have a strategic weapon. They no longer need to compete on price or by niching, but they can bring trade law actions against Canadian firms. That has happened in softwood lumber. They can impose a tax on Canadian producers through the legal system.

The critical point is to analyse to what extent the free trade agreement provides some recourse against this escalation of existing US administered protection. Firms like Noranda, which have obviously been impacted in many ways through these countervails, you will find are strong supporters of the agreement because they have had the experience of fighting the countervail. They buy into the argument that the new binational panel will get at the economics of it because the application of the trade remedy laws is clearly biased.

The ITC (inaudible) material injury only looks at the subsidies paid to the Canadians. The economics of it require that you should also look at the subsidies that the Americans receive. In fact, there is not going to be much difference in the net subsidies. The binational panel, by being able to review the economic evidence and by being able to get more objective assessments of the International Trade Commission, will take us some way towards that. We will not go the whole way, though, until we can get a proper subsidies code worked out.

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Mr. J. B. Nixon: In other words, we do not need a free trade agreement. What we need is a binational dispute resolution mechanism for the megafirms.

Dr. Rugman: No, that is not correct. We have, within the trade agreement, a binational panel, which is the start.

Mr. J. B. Nixon: OK. That is the perceived benefit for the megafirms of this trade agreement.

Dr. Rugman: That is correct. That is the critical one, yes.

Mr. J. B. Nixon: Let me turn to this dispute resolution mechanism. You talk about the countervail, antidumping and sections 301 and 201 remedies.

All those remedies existed before Brian Mulroney ever conceived of this grandly designed trade agreement, correct? They were not invented in the last three years.

Dr. Rugman: That is correct.

Mr. J. B. Nixon: They have been around.

Dr. Rugman: The procedures were changed in 1979.

Mr. J. B. Nixon: And they have been applied by the United States courts in accordance with the legislation.

Dr. Rugman: That is correct.

Mr. J. B. Nixon: OK. What does a binational dispute resolution mechanism do differently, other than require application of existing legislation in a legal or appropriate manner?

Dr. Rugman: What it does is set up a panel with two Canadians, two Americans and a chairman who have the right to review the administrative record, instead of Canadians having to go through the US court process. By having two Canadians involved, by doing a judicial review of the administrative record, in my opinion the economics of the case can be reviewed.

Mr. J. B. Nixon: But it does not change the nature of the actual trade law remedy. They will still apply countervail. They will still apply antidumping.

Dr. Rugman: There is a statute, and there is the administration of the statute. My whole point is that the bureaucrats who do the investigations will be more careful in doing their analysis applied to Canada. The policy depends not just upon reading the statute. The statutes have not changed; I agree with you completely. But the process of review and the administration of them will now be subject to review by this binational panel. If we have this theory that the bureaucrats have been very sensitive to the corporations, as happened in softwood lumber, the binational panel will now overturn these cases. I did not read this out in the text, but in my brief, I say that I am convinced the softwood lumber case would have been thrown out by the binational panel.

Mr. J. B. Nixon: I do not want to yield the floor. Mr. Ferraro has a supplementary.

Mr. Ferraro: I have a supplementary on that point. I have two questions. In the General Agreement on Tariffs and Trade process now, are the economics to some degree not reviewed? Second, when one considers the proportion of exports of gross domestic product, is the argument not fair that indeed we would have more teeth if we did it? Under the GATT, the United States may say: "We are the elephant, you guys. To hell with you." The second question I have—

Dr. Rugman: Perhaps I could answer that one first.

Mr. Ferraro: Sure.

Dr. Rugman: This is a tremendous question. The answer to it is this: American trade law is perfectly consistent with the GATT subsidies code.

Therefore, we cannot fix the problems of American trade law through the GATT. American trade law is GATT-legal. There is nothing we can change in the administration of US trade law by going through the GATT.

The only way we can fix it is through this free trade deal which addresses the issue of administered protection, you see. I believe the free trade agreement is quite brilliant in recognizing this point that it was not the law that was a problem; it was the administration that was a problem. We bargained in the deal. Mr. Reisman is a hero for doing this. He got the Americans to agree that we can review the evidence. We could never achieve that through the GATT because the GATT is the problem. I really feel that this is a substantive point which—

Mr. Ferraro: I am not sure I quite understand it. I never knew that GATT was a problem until this minute.

Dr. Rugman: The American trade law in 1979, you see, was revised to be consistent with the Tokyo round. In the Tokyo round, Rodney Grey, our ambassador, said that the Americans should do a test of material injury. He thought the test of material injury would be tough. There are about 17 economics variables which are supposed to be reviewed.

I have read these cases. The Americans do not test the 17 variables. A sufficient reason to have got a vote in the last six years against Canada, a positive vote of material injury, was that quantity of imports had increased and the market share had been falling for the American plaintiff. This is ludicrous. The GATT subsidies code says you are supposed to be looking at the performance of the industry, the profitability, the competitiveness and so on. The reports by the International Trade Commission often have sentences referring to this but no analysis:

If a binational panel were to receive these reports, and they understand how important Canada is in having transfer payments, which are quite legitimate parts of our social and health programs, they would throw out this poor analysis. I think through the binational panel we are going to get at the substantive bias in the American administration.

Mr. Ferraro: But is the issue not whether or not a country's trade laws are compatible with GATT? I suggest that Canadians would argue ours definitely are, every bit as much as the Americans'.

Dr. Rugman: Yes.

Mr. Ferraro: Is the issue not the damned challenges?

Dr. Rugman: You are completely right. We have the same laws in Canada.

Mr. Ferraro: Right.

Dr. Rugman: I am currently, this summer, studying all the cases we have had to see whether our administration is biased. I do not know what the answer will be, but I can tell you this: It does not matter because in terms of policy, the Americans have a blunt instrument if they countervail us. I mean, they are 10 times bigger.

Mr. Ferraro: That is right.

Dr. Rugman: We lose that whole market. If we play countervail and antidumping games, it is just nonsense in terms of economics.

Mr. Ferraro: So my question is, if you assume that Canada and the US have GATT-legal trade laws, and if you have a challenge or a submission to GATT as opposed to a submission to this binational panel, in the global economy would there not be more clout for the United States, which exports only five per cent of its gross domestic product as opposed to 26 per cent for Canada, in the GATT sphere?

Dr. Rugman: We are pursuing the negotiations through the GATT. If we could fix it through the GATT, I would be happy. I do not believe we can get it through the GATT, though. I believe the opposite will happen. I believe that the European Community will start becoming aggressive in its use of countervail. They already are on antidumping, and we are going to get trade wars through this process of administered protection among the blocs, among the triad, among the European Community, North America and Japan, which we already know has a protected home market.

Mr. Ferraro: All right. I am not sure I got an answer to the last question. I will not even ask any questions—

Mr. Chairman: Mr. Nixon then. You are not—

Mr. Ferraro: It is dealing with the economics aspect.

Mr. Chairman: Oh, sure.

Mr. Ferraro: Maybe I am being ignorant or naïve, but what bearing does a study of the economics have to do with a determination based on legal status, if you will?

Dr. Rugman: The decision of material injury is a decision that can be reviewed by the binational panel.

Mr. Ferraro: GATT does that now as well, I think, does it not?

Dr. Rugman: No. If a Canadian producer does not like the US system, it can appeal to the Court of International Trade, which is an American court and so on.

Mr. Ferraro: Right.

Dr. Rugman: What we want on the binational panel are Canadians who can explain to the Americans that a medicare program and an unemployment insurance program are an integral part of the concept of Canada. These are transfer payments; they are not trade-distorting subsidies.

Mr. Ferraro: It sounds like you are putting embassies out of business here.

Mr. Mackenzie: "Great, boys. We are not going to do anything to you. This is part of the Canadian way of doing business." It is a pile of bullshit, quite frankly.

Dr. Rugman: Let me just talk about the fresh Atlantic groundfish case. The Americans cited the unemployment insurance scheme as a subsidy.

Mr. Mackenzie: They sure as hell raised it. So did all the New England governors. If you do not think that is going to be a battle over the next five to seven years, you are out of your cotton-picking mind.

Dr. Rugman: I think it is, but I think we now have a forum where those points can be put on the table. We do not have the forum without the free trade agreement and the binational panel.

Mr. Chairman: Mr. Nixon still has the floor.

Mr. J. B. Nixon: Going back to the binational panel, it is my understanding—correct me if I am wrong—that in considering and reviewing decisions of the respective jurisdictions, the binational panel will seek to ensure there has been compliance with existing Canadian law, and alternatively, compliance with existing American law. Correct?

Dr. Rugman: Yes.

Mr. J. B. Nixon: OK. On page 14 of your brief, you state that the scope of US judicial review takes in the administrative record, while Canadian judicial review is limited to narrower questions. Correct?

Dr. Rugman: Yes.

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Mr. J. B. Nixon: Then you argue that the advantage of the binational panel is that it now provides for a panel review based on the administrative record. You say that: middle of page 14.

Dr. Rugman: Yes. My point is that the—

Mr. Chairman: Yes, he agrees.

Mr. J. B. Nixon: OK. My question is whether there is any new American law being applied in the review of American legal decisions made under American law. There is no change. There is nothing new.

Dr. Rugman: But what is new is that the binational panel is doing this review.

Mr. J. B. Nixon: OK, but you are suggesting that there is a change in the way the decisions are reviewed, the matters that can be before the courts—

Dr. Rugman: Mr. Chairman, can I explain the process? The process—

Mr. J. B. Nixon: I understand the process, but that is not what I am asking about. You are telling me that there is something new that the binational panel can look at.

Dr. Rugman: That is correct. There will be new things.

Mr. J. B. Nixon: Like what?

Dr. Rugman: The defence lawyers in any future kind of antidumping case will make sure they put on the administrative record evidence which shows that Canada has a different system of subsidies from the United States. Then

the binational panel will review that. At the moment, the defence lawyers have not been doing that.

Mr. J. B. Nixon: What relevance is it?

Mr. Ferraro: That was my question.

Mr. J. B. Nixon: If you are reviewing the application of a countervail or an antidumping decision in the US by the American government, state government or whomever, what difference does it make what Canada's practices are?

Mr. Ferraro: That is right. It is the law.

Dr. Rugman: The difference is that under the current system any decisions made by the agencies, including the administrative record, will be reviewed by a US court. Under the new system, there will be a binational panel, which will be reviewing new sets of evidence. Now there is an incentive for defence lawyers for Canadians to make sure they put on the record evidence about the subsidies.

Mr. J. B. Nixon: I know a lawyer can put anything on the record, but whether the panel or court is entitled to consider it is another thing. You have said and agreed that when they are reviewing an American decision, they are reviewing whether that decision was taken in accordance with American law. I could put on the record, if I was the defence lawyer, evidence about Japanese trade subsidies or Chinese trade subsidies. What that has to do with the appropriate application of American law, I do not know. I do not see anything in the free trade agreement that says "and the panel is entitled to consider the other country's trade remedies."

Mr. Chairman: Just to interject here, I have always thought we had a right to appear in front of their tribunals and put these things on the record in any event. I am going to have to cut this off because I have two other questioners and I would like to get this cleaned up in less than five minutes. Mr. Mackenzie and then Mr. Pelissero.

Mr. Mackenzie: It is an interesting presentation. I would call it a little more laid-back, John Crispo type of presentation to this committee, which clearly establishes that the business community is the one that we listen to and that who is going to make the decisions in this country. As a matter of fact, I think the business community had a heck of a lot more to do with this deal than did any of the politicians.

I have a question, at the risk of oversimplification. I took the trouble to dig out the CBC tapes of the interview of Mr. Mulroney when he was running for the leadership, and I recall very clearly his words that he would have nothing to do with a free trade deal, that it would compromise our sovereignty; from his own mouth in those interviews, the chief one in Thunder Bay, I guess, in which he made the comments.

I am simply asking, in as much as this was not a good idea until the business community got hold of it—I do not accept that the d'Aquinos and the Powises know what is best for all Canadian working people. We have had this argument before some of the other committees and your brief is very similar to the business executives' group or some of the other groups we have had.

I would ask you what is wrong with a vote before this is ever put into

place in this country? Should the public not be entitled to at least that much say, some public input into the issue and some public consensus before something as far-reaching as this trade deal goes to the Canadian people? Would you accept, at least, that we are entitled to that much, in as much as there is obviously some very great differences of opinion?

Dr. Rugman: I am not sure the precise question at the end has much to do with my expertise, but the point of the—

Mr. Mackenzie: I am just trying to get at the view of—you are coming at it from a business point of view. In the final analysis, is it businessmen or politicians, as bad as we may be, who should have some say in the matter?

Dr. Rugman: Mr. Chairman, if you want a philosophical discussion, we can have that. I am here as a professor and a member of the International Trade Advisory Committee. The federal government got my advice; it did not necessarily get my vote. Let's make that very clear. My advice is based on my analysis of these firms as an objective observer.

My analysis is as follows: I think the most significant brief is that of the Canadian Manufacturers' Association in 1983 to the Macdonald commission. For the first time, the Canadian Manufacturers' Association said it was necessary to have a trade arrangement with the United States. They reversed a century of opposition to free trade, when they had supported tariffs, benefited from the National Policy and so on. That was in 1983, before the election, and it was very important, I believe, in influencing the Macdonald commission's report, which also endorsed this as the only viable option.

To answer your question as honestly as I can, I believe that whatever government had won in 1984, we would have negotiated a free trade agreement with the United States. It may be because of the business sector being influential, but I believe the reality was that there was no other course to follow. We can argue about motives, but in terms of the trend in which the country was going, I remind you that the previous federal Liberal government in 1983-84 was having discussions on sectoral trade agreements when Gerald Regan was the trade minister. So that process of trying to reach an accommodation was in place.

Mr. Mackenzie: I think the question is still valid. It was a business decision; that is clear. We even had the comments of the Prime Minister, unless he was not telling people the truth when he was asked the questions. Is it not fair that the political input be there, because it now is a political question in this country, and should there not be a vote before we are tied into such an agreement? That is a fair question even to a business representative, I think.

Dr. Rugman: I am not a business representative. I thought I had made that very clear.

Mr. Chairman: I think that is understood. In essence, Mr. Mackenzie is doing a bit of a survey of witnesses, which is valid.

Mr. Pelissero: Just to briefly pick up on where Mr. Mackenzie left off, certainly, it would be consistent with your last paragraph on page 20, your feeling that this legislative committee has not heard enough from the consumers. All Mr. Mackenzie is saying is, "Let's let the consumers decide one way or the other."

Mr. Mackenzie: They do not have the expertise.

Mr. Pelissero: That is what we have been told.

I would compare, for the record, our provincial process in terms of consultation and hearings with wide-ranging representation of the sectors, stacked against the federal process once the deal has been signed. It is a bit of a joke that they have a committee process that goes across the country, and before we have seen the final details or even when we saw the preliminary draft—again, I would stack our provincial consultative process against the federal consultative process any time; I am saying since the agreement has been signed and explaining it to the consumers and to different interest groups. Even in terms of the federal consultative approach, the whole question of energy was thrown on the table at the very end as a sweetener, in order to get the United States to come to the table.

In table 1, you identify, from 1977 to 1986, the figures in terms of the percentage of Ontario's exports by destination. I guess I would be interested in two other columns alongside that: first, the value of the Canadian versus the American currency, and second, the tariff rate in those years in terms of an average. We have been told that anywhere from 75 per cent to 80 per cent of the goods that now move into the United States do so tariff-free. Basically, the remaining 20 per cent or 25 per cent move in at different rates.

If this whole agreement is about tariff reduction or tariff elimination, the question we have asked ourselves as a committee—the advice we have been given—is, is the deal that was negotiated worth what we gave up in order to attain the other 20 per cent to 25 per cent?

We have also heard from different representatives who have appeared before us that either a currency and/or an interest rate fluctuation would have as much impact in terms of job creation as this particular agreement. I guess I am having some difficulty with respect to the adjustment position, certainly of the multinationals, in not wanting to take any federal money in terms of the adjustment that may be necessary because of this trade agreement.

I happen to represent probably half of the grape growers and half of the wineries in Ontario and I am more than a little concerned with respect to the vibrations that are coming out of the federal government with respect to adjustment assistance.

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People ask, "If in fact we are talking about a narrow band of tariff reduction, what is the big fuss about, why the big deal?" The converse of that is, "When can I go to Buffalo and pick up a new car or pick up a new television set?" When I explain to them that if there happen to be tariffs on that good and it was United States manufactured, the tariffs may be reduced at the end of a 10-year period, but you are still going be subject to a 12 per cent excise duty. Then they go, "What is the big deal?" I guess the bottom line is, what is the big deal in terms of what we gave up to get what we got?

Mr. Chairman: Before you answer that, I notice that your table 1 is based on Ministry of Industry, Trade and Technology figures. We can get MITT to correlate those figures with the dollar value and, what was the other thing you wanted?

Mr. Pelissero: Strength in terms of the tariff—

Mr. Chairman: And tariffs.

Mr. Pelissero: If they have been coming down as we have been told through GATT; they have been coming down.

Dr. Rugman: Perhaps I could reply briefly. I think you asked similar questions, or somebody did, when Professor Lipsey was here, and so on. Basically, the free trade agreement does eliminate all tariffs, but the deal is mainly about addressing these nontariff barriers to trade, the rise of this American administered protection. That is the real problem. You have to make a judgement about how we are addressing that.

Your questions about the exchange rate are well made. Basically, though, if the Canadian dollar does appreciate, there must be something good going on in Canada. The way it would work out is that our firms should be able to handle the adjustment.

Let me just say something about the wine industry. It is my understanding that adjustment assistance for the wine industry, for the grape growers is currently being negotiated by the federal Minister of Agriculture, Mr. Wise, and the provincial government. My understanding is that there will be a program worked out, which should be worked out, to accommodate the people in that industry. That is the one industry that is clearly affected by the free trade agreement.

What my concluding paragraph is meant to say is that I believe the province of Ontario, legitimately, should be concerned about negotiating a good deal for the grape growers, but it also has to bear in mind that this is about one per cent of the total deal. I would think that for Ontario to consider stopping the free trade agreement, not that I believe it can in a constitutional sense, ignoring the other 99 per cent of the deal is not the way to go, especially if the adjustment for the grape growers is being handled.

If we look at the economics of the trade deal, I am puzzled by the position of the province.

Mr. Chairman: I do not think we are going to resolve this today.

Mr. Pelissero: Just a brief response for the record: It is more than about 900 grape growers. It is more than about 16,000 jobs in the Niagara Peninsula, which is the second largest employer next to the automobile industry. As the gentleman identified earlier and the Attorney General (Mr. Scott) identified, it is about a third partner now sitting at a federal-provincial negotiating table when we are determining the destiny of Canada. That is what this agreement is now about.

Dr. Rugman: I am puzzled. I do not understand that at all.

Mr. Chairman: I am going to have to cut this argument off. Dr. Rugman, I appreciate your input. You have brought to our attention some ideas that, frankly, are new to us and I appreciate your putting it together and being with us today.

Dr. Rugman: Thank you for listening, Mr. Chairman.

Mr. Chairman: Thank you very much.

There are three items I should inform you of. First, we were hoping to

have the federal legislation before you this morning. Our instructions were that if it was not here by 11 a.m., and it was not, it was to go to your offices. That is the legislation that was tabled by the trade minister.

Second, you will recall that last week we passed a resolution asking to sit the week of June 6 and the week of June 27 in accordance with Mr. McLellan's plan with regard to writing our report. Mr. McLellan has almost 100 pages of summaries, etc., which will be released to you within the next couple of days and which I would suggest the three caucuses take and peruse very carefully.

I just have received word from the House leaders. Bless their hearts, they have denied our right to sit on June 6. One member of this Legislature suggested to me that we could write our report in about two hours. I think he is disabused of that right now, but they have yet to consider our request to sit June 27. Please lobby your House leaders and whips and let them understand what it is we are trying to do here. Should we be passing a resolution requesting the right to sit on June 13 for them to consider next week? Does anyone wish to so move?

Mr. Pelisierro: Sure.

Mr. Chairman: So moved. That resolution will be put before them to consider next week.

The third thing is that the Board of Internal Economy met on Tuesday and did not consider yet the request for payment for Dean MacPherson. You recall I informed you last week that I have written to Dean MacPherson and said, "Go ahead." I have been criticized for that and you may wish to direct me. It seems to me we have received what I think is an excellent summary of the Constitution from the Attorney General's office, but the fact is that it will be very valuable to look at that and compare it with the actual legislation. Of course, it was done prior to the legislation.

Mr. J. B. Nixon: Given that he is probably charging by the hour, would it not make sense to ask him to wait until we have approval?

Mr. Chairman: It is a moot question as to whether we get approval, but I think there are other ways we can continue to pressure them, including the fact that we have put it in our new budget. I think the issue is an issue as to whether we are getting approval in our 1987-88 budget because we did not spend the money before March 31. That seems to be something that is sticking in the craw of some people. We have also put it in our 1988-89 budget. If they say we can go to Europe but we cannot have research assistance, maybe we could spend our research money instead of going to Europe. I do not know. Mr. Ferraro would like that.

Mr. Ferraro: I am on the record as not wanting to pay that.

Mr. Chairman: All right. That is a moot point, though, and you may wish to suggest to me that I should inform him that he should be standing by again.

Mr. Mackenzie: The only thing I would suggest is we may have to if there is some question that the money will not be authorized. I point out, however, that I think we had almost unanimously agreed that this was invaluable information and we should have had it first. It was the end of April or May, then the end of May and it is going to be useless if we do not

get it, in this current situation, relatively shortly. That is my difficulty with it. I do not know what any of us can do. I certainly will talk to our House leader, although I suspect that is not the final decision on it.

Mr. Chairman: Any members of the Board of Internal Economy. Perhaps the clerk can provide us with—I have a list somewhere of the members of the board. They include members of all three parties, mostly Liberals. Perhaps we could lobby all of them.

Mr. J. B. Nixon: I was not present for the vote. I have discussed it with Mr. Ferraro. We have a constitutional audit. It was tabled in the House yesterday. There are questions about the ability or the wisdom of the government funding another constitutional audit. I think it is imperative, at the very least, that we put him on hold.

Mr. Chairman: All right.

Mr. J. B. Nixon: I do not think we need another one, frankly.

Mr. Mackenzie: The constitutional audit would not be turned over to this committee at the time we asked for it.

Mr. J. B. Nixon: Whenever; we have it. You do not want to fight old battles. The question is, what do we do in the future?

Mr. Chairman: I will inform him today about the present situation and see what his reaction is.

We next meet then on June 2 at 10 a.m. We will presumably go in camera then. We will have Mr. McLellan's material. When will we have that?

Interjection.

Mr. Chairman: I am sorry. Do you want to skip the meeting on June 2? The material will not be ready until June 6. I thought you were going to have it in a couple of days. I will get back to you as to when we meet again. We will meet at the chairman's discretion.

The committee adjourned at 12 noon.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMMITTEE CHAIRMAN'S COMMENTS
ORGANIZATION
TRADE WITH UNITED STATES

THURSDAY, JUNE 2, 1988

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, June 2, 1988

The committee met at 10:06 a.m. in committee room 1.

COMMITTEE CHAIRMAN'S COMMENTS

Mr. Chairman: I think we can start now. I see your motion, Mr. Sterling. We will deal with it immediately.

I wish to open by making a statement with respect to the comments you made in the House yesterday. I think they can be divided into two parts. The first—

Mr. Sterling: Before you begin, I think it would be more appropriate, because we are talking about the conduct of the committee chairman, that you step down and allow the vice-chairman to chair this particular portion of this meeting.

Mr. Chairman: I was not present in the House yesterday, Mr. Sterling. I think it would be appropriate for me to respond to your comments.

Mr. Sterling: I think you could, but I think, because we are discussing—

Mr. Chairman: I have discussed this matter with the clerk and he has informed me that it is appropriate at this time for me to make a comment. If and when we are dealing with your motion and you feel it would be appropriate, or if any member feels it would be appropriate, for me to step down, I am quite prepared to do so.

I think your comments in the House yesterday can be divided into two parts. One is an allegation of a slight to an organization called the Alliance for the Future of Young Canadians and the second is an allegation that there has been less than fair consideration given as to the witnesses that should appear before this committee concerning the free trade agreement.

With regard to the first, I wish to indicate to the committee that I have reviewed my comments of May 26. I do not know very much about the Alliance for the Future of Young Canadians and I take the comments Mr. Sterling made in the House about them as being accurate. I will apologize to them and I retract any suggestion I made that they may be less than forthright or honourable in their views. I sincerely apologize to them, if there are any members of that organization who are here, and regret any suggestion that they may be less than forthright in their views or that there was any assistance that might have been given to them from some other organization in preparing a brief to this committee.

With regard to the second suggestion, I think the committee should remember a few things. I have had the researcher, Mr. McLellan, take a look at the witnesses we have heard. I think it would go unchallenged that this body has heard more argument in favour of this agreement than any other body in the world. We have certainly heard more argument in favour of this agreement than the House of Commons has in Ottawa. We have heard more argument in favour of

this agreement than the Congress has in Washington. We have heard more argument in favour of this agreement than any other legislative body, state or provincial.

We have heard from 32 delegations, according to my researcher, Mr. McLellan, whose primary function was to convince us that this was a good agreement. We have heard from 31 delegations whose primary argument was that there were basic flaws in this agreement, and we have heard from nine other delegations that it would be difficult to put on one side or another.

Some of those delegations—I think, for instance, of Richard Lipsey—I think we granted a full half day to. I have not added up the number of hours, but it would be well in excess of 31 hours that we have listened to delegations since the beginning of this year, basically in favour of this agreement.

We heard, for instance, from Professor Crispo, and one of the people who asked me to make sure Professor Crispo was here was yourself, Mr. Sterling, you will recall, although I do not recall your being here while he was speaking.

I have listened to all of these delegations and I think all members of the committee have listened to all of the delegations with a sense of fairness, even though there are very sharp views on both sides on this particular matter.

I have expressed my concern before, particularly in January when this issue was on the front pages of a lot of the newspapers, at the extent to which we were being manipulated by some force, and I do not know what that force was, but there seemed to be a constant falling-through of those delegations that were opposed to the agreement for one reason or another.

An example that was outstanding was a call I received from the director of the Ontario Natural Gas Association, which was supposed to appear before our committee in January, to the effect that it had been asked to come to Ottawa at exactly the same hour it was to appear before our committee to review new regulations that were going to be proffered that might change what everyone presumed was its adverse view of this agreement. Naturally, if these regulations were forthcoming, they would have been more interested in that than in talking to us and I certainly agreed to their leaving.

They appeared before us some time later, when this matter was no longer on the front pages, and you will recall that when they were asked about what happened in Ottawa, nothing terribly exciting, to them, happened in Ottawa. I have not checked the Hansard as to whether or not they even got the meeting they thought they were going to get, but if they got it, they certainly did not see any changes in regulations that would be advantageous.

That sort of activity, particularly in January, frankly, made me suspicious of some of the things that were happening in our scheduling. I made that clear to the committee and I have not heard any argument to the contrary.

On January 25, we heard from the Canadian Alliance for Trade and Job Opportunities and Donald Macdonald was here as the spokesperson for that alliance. He indicated it was an umbrella organization, introduced a number of the bodies that are members of that organization, and five of those bodies we have heard from, in addition to the alliance. I understand that the Alliance for the Future of Young Canadians is also a member of that body, so it would

have been indeed the seventh member, including the spokesperson for the whole umbrella organization, that we would have heard from that body.

I indicated to the committee, I believe at the end of April or early May, that we were attempting to close off our hearings in May, their having been the most extensive hearings we have heard or anyone has heard on this issue, far more extensive than any other body. I heard no opposition from any members of the committee to that objective.

Mr. Birch, who is, I note, here with us this morning again, has attended, I believe, every single sitting of these hearings that has occurred in the city of Toronto. He has also attended the sittings of the federal foreign affairs committee in this city. He attended all of the sittings of the cabinet committee last fall in this city. He is a private citizen.

I urged him some months ago to prepare a submission of his own and at first he demurred. He indicated to me at the beginning of May that he thought he was prepared to say something to us. At that time, unfortunately, we had no openings whatsoever, but I indicated to him that if one occurred, I would certainly accommodate him. I think in the circumstances it was appropriate that we hear from Mr. Birch, when a private citizen of this country is willing to dedicate this much time to these hearings.

When the opening came, which I believe was the day before Thursday of last week, when the Canadian Importers Association, which had been scheduled to be heard for some weeks said, "We cannot come, but we have a substitute," it seemed to me more appropriate at that time that we hear some of the reactions of Mr. Birch. So I state my position on that.

Mr. Sterling, I have a copy of your motion, which I have not had a chance to read, but you have the floor.

Mr. Sterling: Quite frankly, I do not find the number of delegations that has been presented on either side of this issue or the number of hours relevant to our discussion today. What I do find relevant is the position of the chairman of a legislative committee appearing to be impartial, in particular to the public of Ontario.

Nor do I take anything away from Mr. Birch or his participation in this particular committee. I know he has followed it at some length and I am glad he made his particular submission to the committee. If anyone deserved it, I think he probably did as an individual citizen in terms of the time he spent here.

What we are talking about here is how the public is being dealt with by a legislative committee of our Legislature. On a number of other occasions—I attach copies of the instant Hansard relating to those—particularly at the opening when members of the opposition are not present or part of them are not present, you seem to take opportunities at those times to make what I consider to be partial statements in terms of political parties and their participation in these hearings, etc. Whether or not they are true is irrelevant in terms of who is here or who is not here.

When you are chairman of the committee, I think in order for the committee to operate in a reasonable, credible way, the chairman does not have the same privileges as members of the committee do to make political arguments, political statements, etc. That is outlined very clearly in our

Standing Committee Procedure: A Guide for Committee Chairmen. I have copied page 3 of that document.

In talking about the powers of the chairman it says, "Confidence in the impartiality of the chairman is an indispensable condition of the successful working of procedure in a committee." Then it goes on to say that "fair and evenhanded rulings are essential," etc.

When I look back at the record, for instance, in your statement on January 27, 1988, when you opened those particular hearings, you said, and this was in the Amethyst Room: "The television audience should be aware that we are prepared to start our meeting, but we are waiting for seven legislators who are late. We now have two out of six Liberals, one out of two Conservatives and no New Democrats. We are waiting for the legislators to arrive. Our witnesses are here. Until they arrive, we will have an adjournment."

On January 26, the day before, you said: "Just to let the folks at home know, we have five or six government members here but no opposition members. I hesitate to start the proceedings without the opposition here, but we will see for the next couple of minutes what their interest is in continuing to perform their duties as members of the Legislature. We will adjourn for two minutes."

Then, as I read into the record of the Legislature yesterday, there were your remarks with regard to the Alliance for the Future of Young Canadians. I understood from talking to some of my colleagues in the Legislature that this was the second time you repeated this particular statement, but this was the only time it was recorded in Hansard. One of the Progressive Conservative members who was on the committee at that time, Mr. Villeneuve, was out and then had just returned to the room when you put this particular portion on the Hansard.

1020

You were referring to the Alliance for the Future of Young Canadians and you said "apparently"—the alliance—"was coming out of Ottawa, was prepared to get on a plane, come down here and give a presentation, fresh from having met with Donald Macdonald. Frankly, I do not know who would be supplying their plane tickets, but I smelled a political rat and suggested that we were not particularly interested in hearing from them."

I think another member of my caucus has talked to you before about making political statements in terms of your chairmanship. We have attempted in the past to speak to you privately with regard to your lack of show of impartiality in your statements in front of this legislative committee.

Therefore, I think it is important that not only this committee receive your apology but that all members of the Legislature receive your apology, and in particular this group. I only found out about it yesterday morning and I found out from that particular group what had happened. Therefore, it was necessary for me to raise it yesterday afternoon in your absence. I was sorry you were not present to defend your position at that time, but the rules do indicate that if a matter of privilege is to be raised, it is to be raised immediately upon a member's finding out about it.

I do feel that all the privileges of the members of the Legislature have been aggrieved in a manner, in that the public would gather from your statement, and particularly this group would gather from your statement, that

the members of this committee and the members of the Legislature, when they go into a legislative committee, are not impartial in how they treat members of the public who make a statement to a committee.

Mr. Chairman: Mr. Sterling moves that the committee regrets the remarks relating to the Alliance for the Future of Young Canadians, as said remarks were unfounded and not based on fact, and appear to be politically motivated; that the members of this committee disassociate themselves from the remarks of the chairman; that the chairman of the committee publicly apologize in the Legislature to the Alliance for the Future of Young Canadians for his actions; and that the clerk of the committee contact the Alliance for the Future of Young Canadians, offering an opportunity for the alliance to come before this committee to make a presentation.

Just to substantiate one thing you said, in the comments I made on January 26, there was a private message given to me by Mr. McCague, as I recall. My comments on January 27 were intended to redress that indiscretion on January 26 and I hope I refrained from those sorts of comments thereafter. I would indicate that Mr. McCague, for one, is a member who is usually very punctual.

Mr. Harris and Mr. Ferraro wish to speak to your motion, but as chairman, I would like to raise the issue whether or not you wish me to continue to chair with regard to this issue. I have asked the clerk. He indicates it is proper. I am still concerned about the appearance, but I am also concerned that if I vacate the chair, I have not made arrangements for a substitute Liberal. Of course, Mr. Ferraro's taking the chair would mean that there would be a Liberal missing from the committee.

Mr. Ferraro: Mr. Sterling could take the chair.

Mr. Chairman: Perhaps that should be discussed before there is any discussion on the motion.

Mr. Harris: First of all, I do not think the balance of members should be a concern, and I hope this does not turn into a partisan situation. Second, I have no objection to your staying in the chair.

Mr. Chairman: Mr. Sterling, do you have any objection?

Mr. Sterling: No.

Mr. Chairman: Mr. Harris, do you want to speak to the motion?

Mr. Harris: Very briefly. I think we are faced with a very unfortunate situation. Mr. Chairman, I know it is uncomfortable for you, but I think it is something the committee should deal with and get it behind them and be done with.

As my colleague Mr. Sterling has pointed out, the very most important quality that a chairman must bring to the proceedings is the phrase under "Powers of the Chairman": "Confidence in the impartiality of the chairman is an indispensable condition of the successful working of procedure in a committee." We all understand the parliamentary system and we understand that there are three different parties. We understand the partisanship of that. However, the chairman, in his duties as chairman and not as a private member, must be impartial—when he wants to be partisan, he can step down from the

chair and do that—and all committee members and all parties have to have confidence that that indeed is the case.

You have acknowledged the comments of January 26 as inappropriate and I accept that, but I tell you that it is a sign. To actually say, "We will see for the next couple of minutes what their interest is in continuing to perform their duties as members of the Legislature," in reference to members of this committee from the opposition parties is astounding to me.

I appreciate your comments, that you tried to address it on May 27 but, quite frankly, while the remarks of May 26 certainly give rise to considerable partisanship, the remarks of May 27 are totally inappropriate as well, in my view. I am not sure that, in making them, you understood that it is not just the partisanship.

It is not your role, as chairman, to judge what any committee member does or does not do, whether any member shows up or does not, or where they go or what they do. It is not your role to judge whether an individual member considers it more important at 10:05 a.m. to clear up an emergency or a crisis in his riding or in his office, or to call in to talk to the Premier, or whatever. It is just none of your business, and for you to pass judgement on it is inappropriate.

I mention those two because today you made the comment—and I do not think you have quite learned—about Dr. Crispo. You made the comment about my colleague Mr. Sterling, when you said, "I do not recall your being here while he was speaking." That is an inappropriate comment for the chairman to make. I was astounded when I heard you make it today, knowing what we are dealing with today and knowing that we consider it of sufficient importance to bring this matter to the committee's attention.

That is a comment that, as a chairman, is passing judgement on Mr. Sterling's priorities. Obviously, you are saying: "Well, you wanted Dr. Crispo here. It is totally inappropriate that you were not here." I do not know whether Mr. Sterling was at his wife's funeral, I do not know whether Mr. Sterling was dealing with any other crisis. Neither do you and it is none of your business. It is not appropriate to make those kinds of comments when you are sitting in the chair of the committee.

I support the motion. I think it is the mildest type of motion that can be brought forward. I regret that our party feels it is necessary to bring in a motion of any kind. I appreciate that you have indicated that you apologize for the remarks that were made. I think the motion is one that just formalizes that and allows the committee to disassociate itself from those remarks.

I think it allows the proper redress, particularly to the group that certainly ought to have been offended—and I am sure it was—by the comments that were made. Mr. Chairman, in view of your comments here today, I think a motion calling for this is appropriate. I think when you are in the chair, you really do have to think seriously about what your role as chairman is and how critically important it is that all members of all parties have confidence that while you are in that chair, your only purpose is to facilitate, in a nonpartisan way, the workings of the committee.

1030

Mr. Ferraro: I too hope that the discussion here today is a nonpartisan one, for obvious reasons. I am sure we all believe to some degree

in the independent workings of the committee and try to get consensus when and if we can.

Without hesitation, quite frankly, I suggest, with respect, that the chairman has dealt with the issue raised by Mr. Sterling in a responsible and gutsy way. As indicated by the chairman, and I am sure by every member of this committee, any implication or offence extended to the Alliance for the Future of Young Canadians or, quite frankly, to Donald Macdonald, who is also mentioned in the remark, was certainly not, in my view, condoned by this committee.

Obviously in retrospect, if he had to do it over again, the chairman would not make those comments. I think we should certainly try at all times to adhere to proper decorum in order that the committee may function properly, and that means being perfectly fair and unbiased as chairman.

Mr. Chairman, if I may say so, I think you have done a remarkable job in the last three years or so as chairman of this committee. That is not to say for a minute that I have not been offended by certain criticisms you have directed towards my person, but the offence is taken in the spirit of congeniality and levity. I am sure I am on many occasions guilty of, shall we say, not proper conduct, both as a member and perhaps when I am sitting in the chair.

Having said that, dealing with the issue at hand, I suggest it is the committee's decision as to how it wants to deal with this. But my thoughts on the matter are that we might consider a letter signed by all committee members to the alliance, and indeed possibly to Donald Macdonald, indicating our dissociation from the remarks of the chairman, if we so desire. In fact, the committee may want to consider inviting the alliance to appear before it.

But I do disagree with the further, shall we say, punishment of the chairman from the standpoint of having to make the chairman publicly apologize in the Legislature. I suspect and believe that Mr. Sterling's comments yesterday, provincially and publicly, in themselves have brought the message home.

In conclusion, I suggest, Mr. Chairman, in that you made your comments, however they were perceived and interpreted by various people in Ontario, on Hansard in committee, and subsequently today you have apologized for those comments, that in itself, along with Mr. Sterling's actions yesterday in the House, are enough of an atonement, if you will, save and except I am sure the message is quite clear in everyone's mind as to how the committee should run.

I do not have any problem, essentially, with most of the motion, but I will not support its third paragraph.

Mr. J. B. Nixon: I would like to very briefly address my remarks to two questions, the first being what has happened and the second being what we are trying to accomplish as a committee and as members of the Legislature.

The chairman has explained a sense of frustration, perhaps natural in the circumstances, regarding the scheduling of the agenda and the scheduling of appearances of witnesses before this committee. I take it at face value that born out of that frustration, he perhaps slipped into an indecorous comment regarding one witness or group of witnesses who wished to appear at

the last minute before this committee when we had already determined a cutoff date and when we had already determined the appearance of another witness.

I am sure all members here concur with the chairman's expression of regret and apology to the witness who was unable to appear because of an already full schedule.

I do not in any way condone the use of the words "political rat." What has happened is that that suggestion was made by the chairman in the course of a committee meeting, on Hansard, without the TV cameras present. He has already said publicly that he apologizes and I am sure he is quite—I cannot speak for him, but I am sure he would be willing to convey that in writing to the interested witness.

The second question is: What are we trying to accomplish as a committee? Without reiterating the terms of reference for this committee, my understanding is that the committee wants to hear from as many interested parties as it possibly can regarding the trade agreement as proposed by the federal government; that it has a very busy schedule and has been conducting these hearings for over three years; that there have been a large number of witnesses with, in fact, on a very cursory review by the chairman, a majority supporting the agreement.

None the less, because of the allegation that not everyone is being heard, the allegation I think raised or alluded to by Mr. Sterling, it may be appropriate in the circumstances to hear from the Alliance for the Future of Young Canadians. I do not support Mr. Sterling's motion in detail. I do not think it accomplishes anything in terms of preserving the order and decorum of the committee to pursue this matter in the Legislature. I think it is appropriate for the chairman to apologize, as he has done, and I think it is appropriate for the committee to hear from the Alliance for the Future of Young Canadians.

Mr. Morin-Strom: Yes. I think the comments that were made last week are extremely unfortunate ones. However, I think it is as well a very serious matter and one which in this case was not just made in an offhand manner.

As I recall, the comments were repeated more than once, obviously in front of Hansard; only the second time was in Hansard. I think in particular, once we go into formal session, these types of comments in terms of political motivation do impugn the impartiality which is assumed in the chairmanship of the committee.

I know I have expressed concerns previously about earlier comments by the chairman, particularly the types of comments that have been laid out here from the Hansards in January, when the chairman made remarks that were to the advantage of the governing party at a time when, in my view—my understanding of the normal operation of committees is that committees do not go into session until a quorum is in place and, on both occasions, the chairman went into session publicly, on the air, and made comments while opposition parties were not represented, a practice which is not, as I understand it, normal in this committee. Certainly, it is not when we are in this room; not on the air.

1040

When I look at the requirements in terms of powers of the chairman and the expectations of the chairman in terms of confidence in the impartiality as being an indispensable condition of successful working of procedure in a

committee, I think a very valid point has been made. I am not sure I would not word the motion identically with Mr. Sterling. I suppose my focus would be more specifically on the issue of impartiality and politically motivated comments, which throw into question that impartiality.

I think perhaps a question can be raised as to why the subcommittee was not asked for input when the schedule was changed, but that the chairman had made the decision to change the schedule apparently on his own and the motivations for it appear to have been inappropriate.

At this point I hope that the committee can come to some consensus on a resolution indicating its disapproval of the chairman's actions in this regard. Seeing no other alternative, I am prepared to support this motion.

Mr. Haggerty: Just to speak on the motion and looking at some of the highlighting of the different meetings that have been set, I know the position of the opposition party in getting members in attendance at committees. I sat last year as the vice-chairman of a committee and it was difficult even then to have opposition members present. I was at a meeting yesterday and there were no opposition members present at the committee meeting.

It leaves the chairman perhaps in an embarrassing position because you are damned if you do and you are damned if you do not, if you start to continue and say that the meeting should commence. We have seen meetings here that have been waiting 15 or 20 minutes. We have been at other committee meetings, sometimes a half an hour or 45 minutes, with the chairman waiting for members to come in. They are all busy but the point is I think you have to give consideration to the chairman.

I do not appreciate the comments he made last week either, but in some cases politicians do make maybe a slip of the tongue or are not thinking clearly that morning, waiting for members to get into the committee and figuring perhaps that Hansard is not on at the time.

I cannot see where the chairman had called the committee to order, having seen a quorum. It is the practice recently that committee chairmen have to say, "I see a quorum" whether members are there or not. Sometimes by not doing this perhaps you should indicate that opposition members are not present.

No business would get done in committee if a number of chairmen did not take the attitude that they do, because you are either—it was interesting this morning. I commented that: "I see we have the big guns from the Tory party in this morning. We have the opposition party in this morning." Both of them were present here. There are days when we have waited in this committee for opposition members to come forward.

The chairman has made an apology, and based upon parliamentary procedures, I think it should be satisfactory that the chairman has made it. Based upon parliamentary procedures, the committee should accept it. I, for one, accept it. We can continue debating the issue of the motion before us this morning, but the chairman has made it public. It is on the record that he has apologized to the ones he offended by his comments.

I think it happens to different members in the Legislature that they have to stand up and apologize. It takes courage to do that in most instances. I suggest to you we should accept it on that principle and get on with the business of this morning's session.

Mr. Pelissero: In order to expedite matters, I will simply pick up on Mr. Ferraro's comments and, if it is appropriate, move an amendment to the third paragraph. It currently states, "That the chairman of the committee publicly apologize in the Legislature to the Alliance for the Future of Young Canadians for his actions."

Mr. Chairman: Mr. Pelissero moves that the motion be amended by deleting the words "in the Legislature" so that it would read, "That the chairman of the committee publicly apologize to the Alliance for the Future of Young Canadians for his actions."

Mr. Kozyra: Do you need a seconder?

Mr. Chairman: No, there is no seconder needed, I believe. Mr. Sterling, do you wish to address that?

Mr. Sterling: I am not going to prolong it. I guess there are two reasons that I thought an apology in the Legislature was necessary. First of all, if a committee chairman takes a crack at me or any other member, I think your skin gets a little thicker as time goes on and you think that happens to you from time to time. You can find another forum to get back at him in another way if you want to. I think it is unfortunate that this appearance of political bias has crept into the committee from time to time.

I thought that was important and I guess my back got up in terms of this because we are dealing with a group that is outside of the Legislature. We are dealing with a public group that somehow found out that this statement was made last Thursday. I do not know who it was who contacted them with regard to this statement, but I just thought that in terms of them, whatever goes on in this committee—I mean, they did find out about the bad statement; whether or not they will find out about the good statement, I am not certain—is not only a slam against members of this committee, but it is also a slam against every other member of the Legislature as he sits on committees in this Legislature.

Having said that, I am not going to push the issue. I appreciate the support of Mr. Morin-Strom and I would accept the amendment that Mr. Pelissero has put forward in order to expedite and see this matter behind us.

Mr. Chairman: The clerk has suggested to me that we continue to deal with it as an amendment, in any event.

Mr. Sterling: That is fine.

Mr. Chairman: Mr. Nixon?

Mr. J. B. Nixon: No. No comment.

Mr. Chairman: Does anyone else wish to speak on it? Does everyone understand Mr. Pelissero's amendment?

Mr. Ferraro: Could you repeat it, please?

Clerk of the Committee: With the amendment we make, the third paragraph reads, "That the chairman of the committee publicly apologize to the Alliance for the Future of Young Canadians for his actions."

Mr. Ferraro: What does "publicly" mean? I thought he did already and was going to send a letter. What exactly does that mean?

Mr. Sterling: As far as I am concerned, that is up to the chairman. I guess if I were in his position, I would have preferred to do it in the Legislature. If he wants to count what has happened here in the committee, that is fine. It is up to him now.

Mr. Ferraro: OK. That is fine. Thank you.

Mr. Chairman: Any other comment? Do you understand the amendment? Are you ready to vote? All in favour? It is passed unanimously, I think. I am sorry, all in favour again? Yes, it is passed unanimously.

Motion agreed to.

Mr. Chairman: That is the amendment to the motion. Now to vote on the motion as amended. Any further discussion? All in favour? It is passed unanimously.

Motion, as amended, agreed to.

Mr. Chairman: What I propose that I do is write to the executive of the Alliance for the Future of Young Canadians myself, indicating once again my sincere apology for my remarks and enclosing with it a copy of this Hansard.

1050

ORGANIZATION

Mr. Chairman: For the rest of this morning, there are a number of matters I think we have to deal with. Of course, the major thing is the actual writing of the report, which Mr. McLellan is going to lead us through some comments on and then I hope you can give us some preliminary comments later, either in or out of camera. Perhaps you may wish to go in camera a little later.

I should indicate first, though, that our request to the House leaders for permission to sit during the week of June 13 has been rejected. Therefore, I revised, in discussion with my own House leader, the offer which had been made to sit on Tuesday afternoons following routine procedures. It is my understanding, although the clerk has not received any official notice, that the House leaders have given an open-ended invitation to choose four Tuesday afternoons.

When we last discussed this, I believe the Conservative members were indicating that was inconvenient to them. I have discussed it with both Mr. McCague and Mr. Villeneuve and they both agreed that they would be prepared to sit on the four Tuesdays of this month, which, put together with the usual sittings on Thursday morning, might well be sufficient.

I have also been informed, at least by my own whip, that no decision has been taken on the week of June 27. It is still conceivable that we will be given permission to sit that week even if the House is still sitting, depending in part, I think, on how quickly the select committee on constitutional reform ends up its sittings. I think its schedule has been part of the reason the House leaders have been demurring on some of our requests. I do not think there is anything more ulterior than that.

Mr. Morin-Strom, you have a comment?

Mr. Morin-Strom: I am not sure we or our House leader will support us sitting Tuesday afternoons.

Mr. Chairman: I am sorry?

Mr. Morin-Strom: I am not sure our party or our House leader will support our sitting on Tuesday afternoons.

Mr. Chairman: Why?

Mr. Morin-Strom: I would prefer to continue sitting Thursday mornings.

Mr. Ferraro: Correct me if I am wrong, but I am wondering whether the subcommittee cannot meet and deal with this matter of scheduling.

Mr. Chairman: I am quite happy to have the subcommittee meet.

Mr. Ferraro: I suspect we all have preferences, but I was just wondering whether that is in order.

Mr. Chairman: It is obvious we are going to need some concerted time, I thought, but I think the more people who are hearing this, the better because this is coming out of the blue. This is news to me.

Mr. Morin-Strom: I think we have some difficulties in fitting in additional meetings. We have only one agenda item I am aware of in this month and I do not see why we cannot get this done on Thursday mornings..

Mr. Pelissero: It is my understanding that we have only one Thursday morning left where we have been authorized to sit. Is that correct?

Mr. Chairman: No, we are continuing to sit as long as the House is sitting. I have not heard anything to the contrary.

Mr. Pelissero: OK. I misunderstood you in terms of the week of June 13, then. Was that to sit more than the Thursday morning?

Mr. Chairman: We had passed a motion to ask to sit all week that week.

Mr. Pelissero: OK. Fair ball. That is fine.

Mr. J. B. Nixon: I do not want to get dragged into this discussion and I do not think Mr. Kozyra, Mr. Sola, Mr. Haggerty or Mr. Pelissero do either, or any other members. I agree with Mr. Ferraro. Send it to the subcommittee, because we are all going to get confused about dates and argue about which we want and do not want. Please, let the subcommittee handle it. That is what they are there for.

Mr. Chairman: All right. Perhaps you could all give your preferences and your dates and biases to your representative on the subcommittee so that the subcommittee can make a knowledgeable decision.

Mr. J. B. Nixon: OK.

Mr. Morin-Strom: You have to understand, of course, that the times that are allotted are not the decision of this committee. They are the

decision of the House leaders and require the agreement, as I understand it, of all three parties. The subcommittee may not be able to resolve this matter and it may well be that we will not have any other opportunities than are currently provided for.

Mr. Chairman: That being said, I do not need any motion for that, do I?

Clerk of the Committee: No, just a notification to the subcommittee to meet.

Mr. Chairman: All right. We will have a meeting of the subcommittee some time within the next few days.

Mr. Morin-Strom: In terms of agenda, I think it is only responsible that we do something about a summer agenda. This committee, to my knowledge, has not gone to the House leaders and indicated what we are planning to do and what time we want allotted to us. I do not know what the chairman's plans are or the plans of other members of the committee in terms of what we are going to do about our sittings until we resume in the fall. I think we should have a brief session fairly soon on what agenda items we might like to address during the summer.

Mr. Chairman: That was the very next item that I wished to raise. The House leaders would like to know by June 14 what our agenda would be for the summer. I have a schedule that has been given to me of the three committees they have scheduled: education, energy and justice.

The items that I would suggest this committee needs to look at, not necessarily in order, are the question of prebudget follow-up, the question of phase 2 of tax reform and the question of the proposed investigatory trip to Europe, with regard to the General Agreement on Tariffs and Trade, that we have in fact passed a budget on. Ms. Anderson is here with us today in case you wish to have any input from research on that.

I suggest—and it is just a suggestion to the committee—with regard to prebudget follow-up, it would be appropriate for the committee to deal with that in the early fall as a prelude to dealing with the grey paper that presumably will come out late fall.

I know that the Treasurer (Mr. R. F. Nixon) was anxious that some debate occur directly in the House on the budget. Some debate has occurred, but we have not finished the budget debate prior to his getting into the nuts and bolts of it with us.

With regard to phase 2 of tax reform, there is some urgency if we are going to be involved in that, getting involved sooner rather than later, and I am open to some suggestions as to follow-up with regard to the trip that has been suggested. I note that the committee schedule that has been set out so far shows nobody sitting for the first two weeks of July, one committee on the third week, one committee essentially through August and all three committees in September.

That is the information I have to give to you. Perhaps you can tell me what you would like to be doing.

Mr. Ferraro: Could you enlighten me, please, as to the exact dates that this budget will be in effect? For what period of time?

Mr. Chairman: Our budget?

Mr. Ferraro: Yes.

Mr. Chairman: We have passed a proposed budget that the Board of Internal Economy has not yet looked at for the period of April 1, 1988, through March 31, 1989.

Mr. Ferraro: All right. I would like to say a couple of things because I was probably the strongest proponent of getting involved to a greater degree with GATT. I want to reconfirm my belief that committees are allowed to travel, and I point out for the record that other committees have budgets three times as great as the one being proposed for travel for this committee; substantially in excess of the amount, as I understand it. In my view, whoever is on the standing committee on finance and economic affairs should at one time possibly—if I am on it and I had a preference and had to choose, I would say next spring—get involved with a serious deliberation and indeed a trip to GATT.

Most parties have advocated support for the GATT. When one considers that we are one of the fastest-growing industrial areas—if not the fastest-growing area, if you consider Ontario as an area—in the world, in light of the global trading situation, it is almost imperative that a committee of the Legislature, whether this one or another, get involved to a greater degree.

Being affiliated with the Ministry of Industry, Trade and Technology, I am apprised of what is going on in that arena, perhaps to a greater degree than most members. I again want to reiterate my support that a committee—whether it is this one, and I suspect that it should be this, and whether it is this composition of members—should make one trip to the GATT and get involved to a greater degree in that arena.

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Having said that, not to detract from the discussion at hand, I also want to point out to members of the committee, as I am sure they are aware from their House leaders, that there is some discussion about where estimates should be dealt with and how estimates should be dealt with. For example, the discussion has been whether there should be a separate committee.

I just want to reiterate on the record that I believe it is imperative for this committee to deal with the estimates of the Treasurer. I think it makes perfect sense and I think as a committee we should reaffirm that particular request, which we did in a previous report.

Mr. Chairman: I did not wish to be downplaying the travel. I just wished some direction as to how you wish to put it in context. You may wish to hear from Mr. McLellan because he has some information on that, too.

Mr. Morin-Strom: There are several points, particularly related to comments Mr. Ferraro has just made. I think in terms of summer schedule we are going to be into quite a competition between the various committees for time. I think very few members want to meet in July or at least the early part of August, if not all of August, and we are going to be in competition for those

September weeks. I think we should get our oar in the water pretty quickly in terms of what we want to do. I would think we have to look at a limited agenda and decide where our priorities are.

I certainly support Mr. Ferraro in terms of the importance of the GATT trip. I think those of us who have had the opportunity to go to Washington a number of times with this committee know how important those trips have been in terms of our understanding of the whole political process and how political decisions are being made in Washington and certainly have a far greater understanding of what the trade relationship is and what that agreement means to the Americans and how they perceive Canadian interests in the trade relationship.

I think a similar opportunity would be extremely valuable for us in terms of interfacing with Europe, which is a very important marketplace and an important example of a different type of trading relationship.

I would suggest, though, that the major subject in terms of our priorities should be tax reform. This has been a major subject over the last couple of years since the federal government came forward with its initiative. The final result of the federal initiative—and a bit more specifically, where Ontario is going to go—is still being debated.

I noticed about a week ago the Treasurer put out another discussion paper on corporate income taxes. He has been quoted as going towards being part of a federal sales tax. Certainly, in the prebudget discussions we heard some submissions on tax reform, but we have not really had the expertise in front of us on that particular subject. I would suggest that we should try to get seriously into that just before the early fall and try to tackle that matter seriously, perhaps, through September, October, early November, before we go into prebudget hearings again.

I would put far less importance on the need for the prebudget follow-up at this point. In my mind, that should have occurred during the spring. To get around to that in late August or September is too late.

I suppose those are my views on the summer.

Mr. Ferraro also talked about the budget of the committee, or had some questions about the budget. I have a serious question about the budget too, and maybe the chairman could help me out on it. What on earth has happened to the study that this committee approved that was to be conducted by Dean MacPherson of York University to assess all the legal opinions that have been proffered to date on the free trade agreement and give us an assessment of the impact of that on provincial rights and where areas of infringement may be of concern and what the powers of the province may be with respect to this trade agreement?

We heard before from the Attorney General (Mr. Scott) his refusal to appear before this committee to offer those opinions and his recommendation that we go to an independent source and get our own legal advice. I thought there was consensus that Dean MacPherson had the expertise. We are not asking him to do an independent study from ground zero, but basically to assess all the types of information that have been put forward to this point. Certainly, at this point, he is in better shape, because we actually have the proposed federal legislation and we have the study that has been issued now by the Attorney General's office in the province. I think getting that kind of professional opinion and our opportunity to hear perhaps and get a layman's

understanding of what all these opinions mean in front of this committee is a very important one.

Maybe we will have to have a resolution from the committee requesting that the funding for that study be approved.

Mr. Chairman: I will deal with the issues you have raised in order. Bear in mind we have now gone through more than half of the day and we have not got around to starting to write a report that you have suggested we can do on Thursday mornings.

Mr. McLellan, correct me if I am not doing this correctly, but with regard to the General Agreement on Tariffs and Trade, there is very little happening there in July and August. There will be a September session that will start up. Those sessions tend to be private meetings between representatives of individual countries. There will be a full-blown second session of the Uruguay round in Montreal in December. I just put that in perspective.

Bear in mind that while we had a large winter break this year and it is certainly feasible—it sounded as if Mr. Ferraro was saying that maybe following that would be a time to go there—we would also be into prebudget activity in anticipation of an April or May budget. I am just throwing those things out, because it may be that you are saying September is the best time to go. If it is, we should get ready and resolve that to be the case.

With regard to tax reform, I think if we are going to have public hearings, we should be placing advertisements this month for hearings if we are going to have them in September. Is that not the gist of what the clerk and the researcher were saying earlier to me privately?

With regard to Dean MacPherson, the resolutions were passed in March. I am sorry to say the Board of Internal Economy has not yet dealt with them. I made inquiries again this morning as to when they would be meeting again and they are negotiating as to when they will meet again. I discussed this with Professor MacPherson this week, and he indicated that if he got permission this week, he could have it done by the end of June, which would be helpful for us, in so far as I do not see our getting our report out until some time in July. If it is after this week, it would have to be the middle of July. I am still trying to get the Board of Internal Economy to deal with the request.

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Mr. Pelissero: I support some of the comments Mr. Morin-Strom made with respect to timing. Certainly, July is a difficult month. I do not think you are going to get anybody from any of the three parties who will want to do anything other than maybe be with their families in July.

I know some of the constraints around August, as an example, from at least two select committees and at least one or two other standing committees that want to do something in August, as well as into September. My suggestion would be that we look at September, starting either on or after the week of September 12 and running for three or four weeks, to do tax reform.

We could then start, say, in November, December or even October if the schedule is normal in terms of coming back after the Canadian Thanksgiving. I am making that assumption. We could then in our Thursday morning meetings

start on prebudget and start with some prebudget with those individuals who came before us the last time.

Quite frankly, I would like us to be as a committee, say, during the early part of January or the beginning part of February, doing some prebudget where we leave Toronto and go to certain communities and hear as much as possible from individuals. In the case of the latest round of 107,000 individuals saying something or not saying something, either we missed something or we did not; all we got was one end of the request in terms of wanting increased spending in this area. We did not hear a lot of support or voicing for increased taxes. I would like to be able to do some travelling in terms of in Ontario.

I support Mr. Ferraro in terms of spring—February, March—in terms of a GATT trip. I think quite honestly, if there is going to be a Uruguay round in Montreal, we should take advantage of that in December. We are not going to get anything a lot closer.

I guess what I am saying is that if we are looking at laying out an agenda, certainly in September we should look at tax reform and maybe ask the research people to lay out some parameters, some objectives that we would want to take a look at and what kind of input and who we should be talking to with respect to tax reform and have a number of individuals in. Again, I am making this on the assumption that we would be coming back on October 11, as an example, for a sitting of the Legislature. During our regular Thursday morning sittings, we could get into some prebudget, leading up into next year. Quite frankly, if we do not start until January, I think we will be too late in terms of the whole prebudget consultation. I leave my remarks in that context.

Mr. Chairman: Do you have any feeling as to how long we should spend, how many weeks we need on tax reform?

Mr. Pelissero: I guess I would like to see next week, if possible, something from the research department in terms of the scope. There are four weeks there after the week of the 12th, and I have ruled out the week of Labour Day because our party has a caucus retreat, four days in September, on the sixth, seventh and eighth, so we just physically will not be able to participate. I am saying that if we start tax reform, we could go maybe two weeks, if we look at the Monday to Thursday routine, or two and a half weeks possibly.

Mr. Chairman: I would like some direction on that and hopefully a motion so that we can get our views to the House leaders as fast as possible.

Mr. Pelissero: I am prepared to make a motion that you would take to the House leaders that would ask for us to sit the weeks of September 12, 19 and 26 for three weeks on tax reform.

Mr. Sterling: I would just make a few comments. With regard to Mr. Morin-Strom's concern about this legal opinion and, I guess, the combination of all the legal opinions, the horse is going to be out of the barn pretty soon in terms of whether or not it is going to be relevant. If you are starting to write the report supposedly this morning and you are not going to get the opinion for at least a month, then at some point in time it will no longer be relevant to what is going to happen. I guess you better get an answer or you better try.

The second thing is, I have heard the figure that was bandied around

with regard to the GATT negotiations and I think they are about shy by a half. I think you should probably double that.

Mr. J. B. Nixon: Which figure?

Mr. Sterling: Was it \$24,000 I heard? I think you are shy by about a half.

Clerk of the Committee: The budget for travelling was that I called a travel agency. They informed me that the hotel accommodation was \$250 per day. The flight going from Toronto to Geneva to Brussels to Paris would cost us about \$1,500 per person. That was based on their information.

Mr. Sterling: I just tell you I happened to be in Geneva last October with the Premier (Mr. Peterson) with regard to the GATT thing and it is just extremely expensive there.

I have been a long-standing member of the Legislative Assembly. You do not have to spend what you know is in your budget, but I think it is much harder on a committee if we have to come back and say that we went \$5,000 over rather than the other way around.

Mr. Chairman: We spent about half our budget last year, Mr. Sterling.

Mr. Sterling: That is fine and dandy, but I think you are talking about a different animal when you are going over there.

Mr. Chairman: Well, \$250,000 a room sounds awful.

Mr. Sterling: Why do you not talk to Gordon Ashworth in the Premier's office because I am sure he made the arrangements for the Premier to go to Geneva. He might have some ideas about costs.

Mr. Chairman: That is a good idea.

Mr. Sterling: What was the other matter I was going to raise? With regard to next year, you started talking about March 1989. Having been involved in the change of rules or the proposed package of change of rules, one of the things that might happen, and I think there seems to be a fairly good likelihood that it will happen, is that two things would change next year if that package is accepted. It might impinge on your plans. I would not plan to travel next March because I think the Legislature will be sitting next March.

The way that package is set up is that the Treasurer (Mr. R. F. Nixon) would be required to bring his budget down in March, earlier than he had before. That was the practice going back into the late 1970s.

Mr. Haggerty: That is if the new procedural process is adopted.

Mr. Sterling: Yes. It only makes sense that you budget in advance of the year that you are doing it. That was what happened in the 1970s when Mr. McKeough was the Treasurer. He did bring in his budget in March going into the next year.

I think Mr. Ferraro mentioned about the estimates coming to this

committee or whatever. I think you are going to have to probably accept whatever that package is and whatever the general consensus is on the package.

Having been one of the three negotiators in putting the package together on behalf of my party, what we are talking about is a change in the general structure of what estimates are all about. In fact, if you want to get the Treasurer in front of this committee to talk about whatever he does, then fine and dandy, do that, but do not put it under the guise of estimates of the Treasurer. You would be given an opportunity to do that.

What it is trying to do is get away from the whole idea of what a farce the estimates have really become in that you talk about estimates in December of a budget for a year which is going to end in three months. It does not make any sense in terms of what the original procedure was really set up for. I think you have to look deeper into those rule changes in order to find out where you would bring the Treasurer or the Treasury in front of the committee to achieve whatever end you might want with the Treasurer, be it prebudget consultations or whatever interest you have in his ministry.

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Mr. Chairman: Your argument is largely geared to saying we are going to be very busy in the early part of 1989 in so far as talking about travel is concerned.

Mr. Sterling: If we go on a calendar, which is the suggestion, what happens is that we sit in the first week of March, then we go on a one-week break, what we call a constituency week—not a holiday, but a constituency week—then we go for another two months and then we have a constituency week and—

Mr. Pelissero: It is identified as the school break.

Mr. Sterling: Is it the school break? Well, that one is a school break; the other ones are constituency weeks.

Mr. Pelissero: Remembrance Day and Victoria Day weeks are constituency weeks.

Mr. Chairman: Basically, you are saying you do not think we will have time to be travelling if we are still going to do our prebudget material, because the budget is going to be squeezed.

Mr. Sterling: I would not plan on March. We will know in another three weeks whether that is going to happen, because they are going to have to make a decision as to what is going to happen then. The new calendar would probably kick in on January 1, 1989.

Mr. Chairman: I can understand the reasoning for saying you need to have the budget before March 31, but in view of the calendar we have set up which talks about a federal budget in February or sometimes even March, a province preparing a budget that responds to that and therefore looking in the past at April or May. Has that problem not been considered, that they will need an awfully quick response to a federal budget if there is one that occurs in February or March?

Mr. Sterling: I do not know. I know the Treasurer has been consulted on it and he has some empathy towards that position. I guess it is just like a

school board or whatever it is. You have to do what you have to do in terms of your timing.

Mr. Chairman: Just to try to focus this a little, we have a motion on the floor that talks about three weeks in September. I am getting curious things said in my ear. We have had Mr. Morin-Strom saying we can write our report on Thursday mornings, I take it in June, unless someone says we have to specifically ask for time in July to finish up our report and report.

Mr. Pelissero: Was that matter not referred to the subcommittee to iron out?

Mr. Chairman: All right. Then they have to come back, and we will deal with it next week and we will then make a request to the House leaders for time if the subcommittee decides we need it in July.

Mr. Pelissero: On free trade. But I think we need to get our oar in the water for September, during those three weeks in September.

Mr. Chairman: All right. So your motion is for those three weeks in September?

Mr. Pelissero: Yes.

Mr. Chairman: Are you including in it anything concerning the time for travel?

Mr. Pelissero: No. I am just saying let us get the oar in the water to let us sit. During September, I do not see us travelling on tax reform. I see us travelling on prebudget later on in the calendar year.

Mr. Chairman: That will require an amendment to our budget if we do that. I note, just looking at the calendar, that there is another week there, October 3. We initially asked for two weeks to go to Europe and I am wondering if you would care to consider asking for a total of five weeks, which would include a fall European trip.

Mr. Pelissero: As part of the September thing?

Mr. Chairman: Yes, starting perhaps on August 29 with tax reform. I am just throwing that out because of what Mr. Sterling said about leaving everything until the winter.

Mr. Pelissero: With August 29, to be quite honest with you, you have two other select committees and possibly two other standing committees which are going to be going.

Mr. Chairman: There is only one committee sitting the week of August 29.

Mr. Pelissero: If we want to start on budget reform that week and go from Monday to Thursday, again, I think the subcommittee is going to have to—I am getting everybody whispering in my ears.

Mr. Chairman: So your motion for now is that for sure—

Mr. Pelissero: I would like to go for the three weeks for sure that we have.

Mr. Chairman: All right. The subcommittee will deal with that then. The motion is that we ask the House leaders, and therefore the Legislature, for permission to meet during the break on the weeks commencing September 12, 19 and 26 to study tax reform. Any further discussion?

Mr. Morin-Strom: You are proposing a motion for three weeks? I think we have to have the GATT trip in September. Any suggestion that the GATT trip is going to happen the following year does not make any sense in terms of where we are on the free trade issue. That, I think, has to be the priority for September. If it takes five weeks for the tax reform—

Mr. Pelissero: I will amend my suggestion to the request that—sorry?

Clerk of the Committee: October 3?

Mr. Chairman: There is one extra week in there before Thanksgiving.

Mr. Morin-Strom: Another comment: It is inconceivable that this committee will be travelling while the Legislature is sitting.

Mr. Pelissero: I think we are all agreed.

Mr. Morin-Strom: So we will not be going around the province in November or December, as I think you were suggesting, to do tax reform.

Mr. Pelissero: It would be December-January.

Mr. Morin-Strom: Not December; we are sitting in the Legislature.

Mr. Chairman: He is talking about prebudget, I think.

Mr. Morin-Strom: Prebudget, whatever, we will not be travelling, because travel requires—

Mr. Mackenzie: January, then.

Mr. Morin-Strom: Maybe January, but it requires something really exceptional to travel while the Legislature is sitting.

Mr. Chairman: What is your motion now?

Mr. Pelissero: I will amend it to reflect a trip in September, probably the week of the 19th if we are going to look at two weeks, the 19th and the 26th, whatever those two weeks are, to the GATT.

Mr. Chairman: Is there a problem?

Clerk of the Committee: I am sorry; I do not understand.

Mr. Pelissero: I am saying in September, for the week of the 19th and the week of the 26th, we request permission from the House leaders to travel on our GATT trip, basically; those two weeks.

Mr. Chairman: And then what do you want for tax reform?

Mr. Pelissero: I will not deal with tax reform. I just leave that for somebody else. I cannot see us —

Clerk of the Committee: Let's put the first week in August and then worry about it later.

Mr. Pelissero: The first week of August?

Mr. Chairman: The last week.

Clerk of the Committee: Or the last week of August.

Mr. Pelissero: For tax reform?

Mr. Chairman: If you are talking about two weeks for a trip and three weeks for tax reform, would you want a motion that—

Mr. Pelissero: I do not think we would get five weeks.

Clerk of the Committee: Could I simplify? If you include the week of August 29, it will give you four weeks. Then you can divide it between two weeks on tax reform and two weeks for GATT.

Mr. Pelissero: Which two weeks for tax reform?

Clerk of the Committee: You can have August 29 and September 12 for tax reform, and for GATT, September 19 and 26.

Mr. Pelissero: Sure.

Mr. Chairman: You still have one week left over, the week of October 3.

Mr. J. B. Nixon: What are we going to see and do on our GATT trip, if I may ask? I understood you to say, Mr. Chairman, that all that was taking place in September was private meetings. If there is something where we can get involved and learn something, I think that is fine, but—

Mr. Chairman: There will be specific issues that will be canvassed and there is a schedule—I do not know whether we have it yet—for September of specific areas, so we would be able to familiarize ourselves with those areas ahead of time and certainly, hopefully, be able to have discussions with negotiators from various countries. We may not be involved in specific private meetings or we may, depending on what they permit.

Mr. J. B. Nixon: As long as there is some value in going. I do not want it to be seen as a junket. If we are just going to talk to people and have a good time, I do not want to go, frankly.

Mr. Chairman: No. I think there is some merit—I say this especially with Mr. Ferraro not being here at the moment—in the suggestion, and I realize Mr. Sterling's argument with regard to time, that issues will be raised in December that we may want to follow up if we go to Montreal.

Anyway, the motion on the floor then, just to make sure we understand it, is that we ask the House leaders for permission to sit August 29,

September 12, September 19 and September 25 to deal with two weeks of tax reform and two weeks of Europe.

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Mr. Mackenzie: Just as a partial response to Mr. Nixon, we are not going to be involved in any of their specific talks or dealings, obviously, as a committee of the Ontario Legislature. If there is any purpose to it, it is to get some background from some of the people who are involved as to what they have run into, what they can or cannot do, or have or have not done in terms of the whole General Agreement on Tariffs and Trade situation and a little more understanding, I guess, for this committee, if it is still going to be involved in some of this economic stuff.

I do not think the fact we are not going to be involved in any specific deal—now you say that is not what you meant, but that is the way I took it when you made your comments—means a darn thing.

Mr. J. B. Nixon: No. I guess my basic concern, and I will state it, is that Ontario is not a participant in the GATT discussions. The federal government, for better or worse, has to act on behalf of the nation. It is important for us to have an understanding of how GATT works. I just want to be clear that there is value for money in this trip; that is all. We are spending a lot of the taxpayers' money to go over there. I would love to go to Europe, do not get me wrong, but it does concern me that the taxpayers get something out of this, that I am going to be able to bring back to this Legislature some value to make this a better province, to produce better legislation, better policy and better criticism of government policy.

Mr. Mackenzie: I do not know how anybody can ever tell you that on a specific deal. I could not have told you that when we went over on the highway safety stuff, six or seven years ago, but it is one of the very few committees—ten years ago, now—that I have ever sat on where almost every damn one of the recommendations has seen the light of day. There was some good information gained on that. Half the trips in this House are half junket at least, for Pete's sake, and you know it as well as I do.

Mr. J. B. Nixon: You have been here longer so I do not know as well as you do.

Mr. Chairman: Not this committee.

Mr. Mackenzie: This is one of the hardest working committees, that I will concede, that I have ever been on. But how do you measure what you are going to get out of it? I cannot tell you that.

Mr. Sterling: Let me say, having had some experience with GATT and having met with our GATT ambassador relating to the GATT negotiations and also having sat with seven ambassadors, including the secretary who runs the whole GATT process, the whole GATT negotiations process is at a crossroads at this time. Up until these past rounds of negotiations, basically the United States provided all the leadership, or a significant amount of the leadership, in terms of proposals as to how to deal with significant trade barriers and significant problems.

Right now, the situation in GATT is that there is a lack of leadership in terms of the United States taking the leadership role in terms of what GATT will and will not do. There is a tremendous void there which is of great

concern to a lot of countries. What you are having is the European countries jumping in, making a lot of initiatives. You have Canada taking a much larger and more significant role.

Mr. Haggerty: We are giving our bargaining rights away to the United States.

Mr. Sterling: This is not really dealing with that particular part. What I am saying is that if there ever was a time when Canada had a chance to show leadership and innovativeness and proposals as to how to deal, this is the time to do it. I will tell you, the ambassador for Canada at GATT is quite interested in hearing what our Premier (Mr. Peterson) has to say and what we think about different approaches that he might put forward on behalf of GATT. We have tremendously competent people, in my view, representing the various interests and the various issues and that kind of thing.

I think that as long as you went there in terms of saying you would like to make some suggestions—if the primary policy is agriculture and agricultural subsidies and that kind of thing, which is the one they seem to be trying to get at and finding out what the boundaries are of what they are going to consider in GATT, maybe the committee should make some kind of significant contribution to the negotiation. I think there is an opportunity to make a significant contribution, either through our ambassador at GATT or—I do not think we can go directly there, but I am sure they would be happy to—you are talking of very knowledgeable people, I am telling you. They know their stuff.

I do not know whether you have considered it or not, but the European Community, which is headquartered in Brussels—

Mr. Chairman: We will be going there, too.

Mr. Sterling: Oh, I see. Fine. I think Mr. Nixon makes a valid point. There has to be a good program and a good reason. If, for instance, it is more advantageous to meet in October or December or January or whatever it is, in terms of meeting the proper people and getting the proper thing done, then you have to give in to that. You cannot travel there if the negotiations are basically not taking place at that particular time.

If there is a more exciting part of the negotiations taking place or the European Community is meeting then, I think you are going to have to adjust your schedule to that, more than just saying you are going to block out two weeks in September. It is a significant expense you are going to incur and you have to get—I think it would be really worth while.

Mr. Mackenzie: I do not know about the rest of the members of the committee, but a couple of things have been at the top of my thinking right from the word go when we have discussed this trip. I am not sure it is particularly the functions that are on as much as if there are meetings, various subgroups, going on and there are people who can answer some questions. I have a personal question that nobody else may have, but it is a result of these hearings.

We have two of them: One, whether the charges that have been made that we would be in a sort of Fortress North America situation with the free trade agreement is one that has any validity or is shared or what the view of it is in terms of some of the people who are involved in GATT and the European Community; two, the whole issue of arguments that have been made by some of

the witnesses before this committee who were whistling Dixie and thinking that we can really expand substantially our trade with the European Community or the Pacific Rim, and that what this free trade deal does is restrict rather than allow us to open up our opportunities.

I would like some people who are involved both in the European Community and in GATT to give their response to that kind of question. Just what do they think are the possibilities in terms of Ontario's and Canada's trade in these areas? In other words, I think there are some useful things to be picked up if this committee is going to be an ongoing committee at all.

If you are going to do it, I am not wedded to the time, but I think it would be a hell of a lot better to do it early rather than late. I guess that depends on whether there are any meetings going on at all in September, where we can at least talk to some of the people and have some serious conversations along these lines, plus whatever else the committee is asking. That is why I would set your schedule, if you are going to do it, as early as you can.

Mr. J. B. Nixon: I am just wondering if Mr. Pelissero would accept a friendly amendment, tailing on the motion, "subject to the clerk being able to arrange meetings with appropriate officials," whatever.

Mr. Pelissero: I have no problem with that amendment. Just on Mr. Mackenzie's point, if we want to go there when there is something happening, by and large, the people we may want to talk to, if it is higher up in some of the discussions, may not have time for us at that time.

We may have as much success or more success in getting to know the intricacies when they have more time to sit down with us if we do not go in and just be there for a media show, when we could watch it on TV someplace else. They may have more time. So when I agree to "subject to the clerk being able to arrange some meetings," I would like to know the scope of the individuals and the kind of individuals we would be meeting with. The clerk may have contacts similar to those we had in Washington, where we go to a person and say, "These are the kinds of things we want to see done and this is what we expect in terms of a working package."

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Mr. Chairman: I am not aware of a contact of that nature, but if anyone knows of one, perhaps he can let us know. So far, we are getting much more friendly co-operation from embassies than we did in Washington.

Mr. Pelissero: OK, fair. I have no problem.

Mr. Chairman: Has everyone had his say on the motion? The motion is essentially that we ask the House leaders for permission to sit during the weeks of August 29 and September 12, 19 and 26, to spend some two weeks of that time on tax reform and some two weeks of that time on the European trip to investigate the General Agreement on Tariffs and Trade, the Organization for Economic Co-operation and Development and the European Community and that the time be juggled, subject to the arrangements that can be made by the clerk.

Mr. Morin-Strom: I just suggest it might be safer to allow some flexibility in terms of what weeks might be the best. We could say, "We request four weeks between August 29 and the Legislature's resuming in October."

Mr. Pelissero: No problem.

Mr. Chairman: That is a good idea.

Mr. Morin-Strom: It could clear it up for a little more flexibility as to what weeks make most sense in terms of the other committees and in terms of when people are available, for the best trip we can possibly have.

Mr. Chairman: That makes sense. Do you accept that? All in a favour?

Motion agreed to.

Mr. Chairman: OK, now we are going to write a report on free trade.

Mr. Mackenzie: By the way, just by way of information in terms of the point that was made by Mr. Sterling, the schedule had better be looked at fairly carefully, if the trip proceeds, in terms of how long you may be in Switzerland, because what he says about the costs there, as I am sure others know, is very true. I got a son back from a trip there just recently. I thought Sweden was crazy years ago, but the costs in Switzerland are out of this world.

Mr. Pelissero: If that is the case, I think we should be prepared to share rooms. When we look at something like that, \$250 a night, I do not mind sleeping with Harris for that.

Mr. Kozyra: That requires some clarification.

Mr. Chairman: In all seriousness, though, maybe we should instruct the clerk even to be looking at accommodation that would involve sharing rooms—I do not see anything wrong with that—and perhaps to talk with those who prepared the Premier's trip to make sure our figures are all right.

TRADE WITH UNITED STATES (continued)

Mr. Chairman: Mr. McLellan has spent the last month preparing a document that is about 100 pages in length and will be delivered to you early next week. He would like some early direction. Here is the report. I have not looked through it, but when we do get this document, I would like you each to take some time immediately, shut yourself off and go through it and make what notes you wish to make.

We have heard an awful lot, and we have a serious responsibility now to make sure that we canvass everything we have heard to make certain we address all the many issues that have been raised. It is not going to be an easy thing to write this report.

I would like Mr. McLellan now perhaps to indicate a few of his concerns to us because he wants some direction as quickly as possible as to how he should be approaching the report. I have had several discussions with him. There are obviously going to be some areas where there will be partisan differences. I hope the committee can at least canvass a number of areas where there may not be partisan differences.

I am going to turn the floor over to Mr. McLellan now to throw some of these concerns out to you. It is obvious we are not going to have a lot of time this morning to address them, but I hope we can start to address them immediately the next time we meet.

Mr. McLellan: As the chairman said, we have two documents here. I know when Mr. Pelissero looked at these 106 pages before, or whatever it was, he was somewhat concerned. Anyway, as part and parcel of our job we have gone through and I think we have in the order of 1,500 pages of submissions which is an awful lot to go back through.

This document summarizes those and it has taken a lot of work to get it down to this, quite honestly. We have in the order of 100 pages right here. Obviously, you are going to be selective as to which ones you are interested in and which ones you are going to use to make a case or recommendation.

This second report here entitled Members' Observations and Comments is number 742 and addresses and basically gives an overview of what I have taken out of my notes in combination with Hansard. Just so there is no confusion, I think this could be a potentially useful document because it does not go back over the arguments presented by 106 exhibits. What it does is list all of the delegations, starting from Professor Russell back on December 10, 1987, and running through to Professor Rugman on May 26, 1988. We have a total of 72 sessions that we actually sat through.

This document is set up so that we list all 72 and then below each witness's name I have noted members' observations and comments. What I have tried to do is capsulize the essence of some of the questions that were put forth.

I have drafted another list here and there are repeating themes you can jot down that might total 30, 40 or 50 where we basically reiterate a series of concerns and themes with federal-provincial relations, discussions of sovereignty and Canadian identity. Then we work through from those general thematic statements right down to Mr. Ferraro's specific concerns on provincial authority with respect to negotiating contracts on Ontario Hydro. So we go from the very general right down to the specific.

What I need, if and when the committee is prepared to do it, is some kind of instruction from you on what format the report should take. As I say, these are background documents and no one is going to read them all, but on the basis of that information—

Mr. Chairman: There just is not time to.

Mr. McLellan: Obviously you will have to be selective, but on the basis of that background information, hopefully we can work down towards a series of recommendations in these general thematic areas going down to the very specifics of energy or agriculture or what have you.

I need some indication from the committee as to what I should be doing in terms of proceeding with the report. If you want me to go ahead and start to prepare today a general introduction, and then I think look at some of the procedural issues—for example, what we have done over the past two or three years, taking into account our trips and what we have done as a committee to try to organize and focus ourselves—I could prepare that background stuff. Then I could begin to get into discussing areas where there may be general consensus on themes, whether it be on the sovereignty issue, federal-provincial relations or concerns there, and I could bring the committee up to the point of making recommendations on specific sections of the free trade agreement.

With that background introductory section or two or three, we arrive at

getting down to the teeth of what we are going to do. If we are going to look at the FTA and go through section by section, starting off with agriculture and energy, if you want to do that, that is one option. But that would be what I would call an article-specific analysis, where you look at article 301, comment and go through stage by stage. If you want to take that tack, that will give me an indication of what I should be doing in preparing for those article analyses.

That could be done because we can go back through Hansard and say specifically what our comments were on articles 301 or 1602, or whatever the case may have been, or the retaliation on the cultural sector. So I need some indication on the meat and substance of the report in that area. Then on the basis of that, I could start to draft recommendations on the basis of Hansard and my observations. That would be possible. I do not want to second-guess what the committee is doing, but those are my ideas.

Mr. Pelissero: I think from my perspective and certainly from that of the people of Ontario, and I will speak specifically to my constituents, after all is said and done—and there is some \$30 million to \$50 million that the federal government is going to attempt to pump in to try to sell this thing—by and large, people still do not understand what we are talking about.

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Even in a poll that was done by Ernst and Whinney yesterday showed that of the companies that "support this deal" only 33 per cent have bothered to take the time to analyse it and make comment on its impact with respect to their company in Canada and 27 per cent in the United States. Yet we have individuals coming in and organizations coming in and saying, "Yeah, rah-rah, it's the best thing."

I like the researcher's suggestion in terms of a section-by-section analysis of almost, say, both sides of the argument, where you had how one group saw it on agriculture. Again, there was a study done by the processors that said they love it and, obviously, the farm organizations and direct producers have some concerns.

I would like to see us take the tack that the document and our report and recommendations that come out would be in such language that the person on the street could understand it. I think it needs to be as much a question-raising exercise as anything in that type of an analysis.

In some of the things that I know the chairman has raised about the Virgin Islands and Puerto Rico, the comment I found interesting that I can bring in for the committee is that, in response, someone from the federal government, whether it was in the Trade Negotiations Office or whatever, the exact—

Mr. Chairman: I think it was someone in the Prime Minister's office.

Mr. Pelissero: It might have been someone in the Prime Minister's office who said this was never meant to be a reciprocal agreement. I am sorry, but that is what I thought this whole process was about. So I think we need raise and highlight those kinds of things.

We have a responsibility, I think, to act as much as an information and educational report as anything else, from my perspective, anyway. I am willing to have that position challenged or shot down by my fellow committee members,

but from my perspective, I would like to see something that goes out and says: "Look, we have gone to Washington. We have had a number of hours. We still have these questions"—boom, boom, boom—"and we have attempted to get answers to some of them. Some of them have been answered, but maybe not to our satisfaction"—and really do a critique.

If in fact we can get something from the House leaders in terms of the study, the legal opinion, that can tie into it—I would like to be able to proceed basically in units, so that if that study does not come forward for whatever reason, we would still have stand-alone document modules, I guess, that we can then tie together.

Mr. Haggerty: Just following up on Mr. Pelissero's, I would suggest in preparing the report that where there have been some concerns raised by witnesses or questions raised by committee members here, we highlight the section of the trade pact itself. Say it is section 1401. Put it there and say, "This is what we find from people who have done additional research in this area and have raised concerns to the committee." Then we can say, "Our comments are this."

I think of the meetings we have had down in Washington, meeting senators and so on, and I think we should remind the public of some of the comments that the individual senators have made. I still like the one, and I quote it often—I think it has some reflection upon this free trade agreement with the United States—where people in the Department of Commerce said to us the day we were questioning them on the—you had set the example, Mr. Chairman, and one of the committee members said, "You're not using the right numbers in the area of trade between Canada and the United States," and we talked about the service sector. They mentioned Statistics Canada having one of the best systems.

One of the puzzling things that still sticks in my mind is that the comment was, "When you Canadians can pick up your fair share of the security shield, then we will have a deal." There is more implied behind this free trade than anything in this particular area when we are looking at the area of security shield, and that is looking at our sovereignty in the Arctic area.

Mr. Chairman: Was that a comment?

Mr. Haggerty: That was a comment.

Mr. Chairman: I think you are thinking of a trip the committee took a year ago.

Mr. Haggerty: In a previous—

Mr. Chairman: Yes.

Mr. Haggerty: Yes, a little over a year ago.

Mr. Chairman: The newer members of the committee would not be aware of that.

Mr. Haggerty: I am sure that Mr. Mackenzie can recall that.

Mr. Chairman: Yes. There is certainly an opinion that we could —

Mr. Haggerty: I know that the former member from Thunder Bay, Jim Foulds, who quoted that, was concerned about it, too.

Mr. Chairman: Yes, I do recall that. Mr. Mackenzie.

Mr. Mackenzie: I have some difficulty in knowing how it should be laid out. I really had no difficulty with the outline that the researcher gave us. The crucial thing in the report is obvious. The recommendation that came to this committee was that we oppose free trade. It was not nearly as strong as we wanted, and that was half the fuss, but that was the agreement that this committee was to look at. What we have to end up with are the recommendations: What are we going to do about it? We have talked a good game up until now. We can lay out all the information we have.

I do not totally agree with Mr. Pelissero. Any education on it is good, but I do not think our job is necessarily just to further educate people. If we can lay out in the report the views that were there, fine and dandy. Our job, as I see it—and this is where we will either have some agreement or, obviously, we will differ totally—is to decide what kind of recommendations we then make, unless we have changed them, to carry out the mandate that this committee was given, which was not one supporting the free trade agreement.

Mr. Chairman: People are anxiously looking at the clock. I do not know whether there is going to be a vote or not. Could you give me some help?

Mr. Mackenzie: Why not proceed with the outline, because that does not involve the actual recommendations?

Mr. Chairman: We are not into solid recommendations yet, but at least you have some idea as to what we are thinking on process.

Mr. J. B. Nixon: I agree with Mr. Mackenzie. They can give any ideas to this committee next week when we meet.

Mr. Chairman: Yes, that is right. When the steering committee meets, you might come to that meeting. We may well be able to thrash that out a little bit. When is a good time for a meeting of the steering committee?

Mr. Pelissero: Tuesday afternoon.

Mr. Chairman: Tuesday after or today after? What were you saying?

Mr. Pelissero: I am suggesting Tuesday afternoon or Monday afternoon.

Mr. J. B. Nixon: This is the subcommittee?

Mr. Chairman: Will we try Monday?

Mr. Pelissero: You are going to have to check with Mr. McCague. He is not here anyway.

Mr. Chairman: I have no problem with today either.

Mr. Pelissero: Mr. McCague is not here.

Mr. Chairman: He is not here physically?

Mr. Pelissero: He is physically not here.

Mr. Chairman: All right. Monday after question period. I will check with Mr. McCague.

The committee adjourned at 11:58 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES
ORGANIZATION

THURSDAY, JUNE 9, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Sterling, Norman W. (Carleton PC) for Mr. McCague

Velshi, Murad (Don Mills L) for Mr. Haggerty

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From Toronto Youth for Free Trade:

Frum, Linda, Executive Director

From the Alliance for the Future of Young Canadians:

Hansen, Lars, National Co-Chairman, Ontario

From the Ministry of Treasury and Economics:

Matranga, Tony, Research Assistant

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, June 9, 1988

The committee met at 10:10 a.m. in committee room 1.

TRADE WITH THE UNITED STATES
(continued)

Mr. Chairman: I see a quorum and we can get started now. During the second hour today, we have a very heavy agenda dealing with some of the matters which were raised in the subcommittee. The notes of the subcommittee hearing are being distributed, as well as the briefing book prepared by Mr. McLellan. The essence of the proposal from the subcommittee is that the report on the free trade agreement not be written until the fall. I put that to you for your consideration and later debate.

This morning we have with us the Alliance for the Future of Young Canadians. Lars Hansen is the spokesperson for the alliance. You have in front of you a synopsis of their brief as well as their brief. Welcome, Mr. Hansen. With Mr. Hansen is Linda Frum, executive director of Toronto Youth for Free Trade. Perhaps you can lead us through your executive summary or the whole brief, if you wish. We have approximately 45 minutes, and it would be usual to spend about 15 minutes and then leave yourself free to answer some questions.

Mr. Sterling: I hope that since Mr. Hansen is here at our invitation, we would be covering his normal travel costs to come from Ottawa to Toronto. I think that is the normal procedure of a lot of committees when we invite somebody to appear in front of us.

Mr. Chairman: I have no problem with that. Do you wish to make a motion to that effect?

Mr. Sterling: Yes.

Mr. Chairman: Is there any discussion? All in favour? Opposed?
Carried.

ALLIANCE FOR THE FUTURE OF YOUNG CANADIANS

Mr. Hansen: I will just go through the brief. I would like to open this morning by thanking the committee for the opportunity to come and appear before you in reference to the committee's consideration of the Canada-US free trade agreement. The alliance regrets the circumstances which precipitated our appearance here this morning, but I wish to express the sentiment that we accept the apology of the committee and of the chairman last week and we are most pleased that you have taken the opportunity to extend the invitation to our group to be here this morning.

By way of introduction, I would like to take a moment to reiterate the presence of Linda Frum, who is the executive director of Toronto Youth for Free Trade. This is a member group of the Alliance for the Future of Young Canadians which is presently occupied with organizing an event for June 20 called Youth Summit: A Celebration of Free Trade at the Diamond Club in Toronto. We hope you may be aware of that event in the coming weeks.

Mr. Chairman: Where is the Diamond Club?

Mr. Hansen: It is 410 Sherbourne Street. That is also an invitation. It is a rare occasion to get into the Diamond Club for \$5. It is an evening specifically dedicated towards young people coming out in support of free trade and just getting together to show their support for the free trade initiative as it pertains to them. I would like to take a moment for Linda to explain a little bit about that evening.

Miss Frum: That is basically a good summary. We are saying our attendance will be people who are 39 years and under who are enthusiastically in support of free trade. However, we have no age police. Anybody who is young at heart and wants to come out and support free trade we are accepting as well. The reason we are doing this is that we feel there probably has not been enough show of support among young people for free trade, not because they do not support it but because it is often harder to take an initiative to be for something rather than to be against it. We want to do a positive thing and make a positive statement about just how excited we are about this terrific deal.

Mr. Chairman: You are not inviting members of SHAFT, students horrified at free trade.

Miss Frum: Students horrified at free trade? We do not expect many students who are horrified about free trade to attend. We expect our participants will be made up largely of people who really understand the true spirit of this thing and are joyous about free trade.

Mr. Hansen: I would like to take a few moments to familiarize the committee with the nature of the Alliance for the Future of Young Canadians, its makeup, goals and objectives, as perhaps many of you are not quite familiar with our group.

Founded in January of this year, the alliance was created in the belief that there existed an absence of a national youth voice in the present free trade debate, and this vacancy was somewhat disturbing, given the future-oriented nature of the free trade agreement and the implication that acceptance or rejection of this deal will have on the kind of tomorrow in which our young people will live and work.

To act as a credible voice in this debate, the Alliance for the Future of Young Canadians was founded without any partisan political ties and represents the views of many Conservative, Liberal and Social Credit youth, in addition to many young Canadians without partisan affiliation whatsoever.

Our membership presently exceeds 16,000 across this country, and we expect that number will be increasing dramatically in the coming months. We remain objective and optimistic towards that goal. By association, the Alliance for the Future of Young Canadians is a member of the Canadian Alliance for Trade and Job Opportunities. By way of explanation, this is why we were in attendance at Donald Macdonald's press conference in Ottawa last week, perhaps when you heard of our group. We are the youth wing, if you will, of the senior trade alliance.

In terms of initiatives, AFYC members have participated in many debates and discussions over the free trade issue in the past six months. We have also launched a national petition of youth across Canada, and it is hoped that we will have the signatures of 20,000 Canadians when that petition is completed.

We launched that petition in February with Glenn Anderson of the Edmonton Oilers here in Toronto, and we are optimistic we will be able to carry that message to the young people of this country and gain their support.

Having outlined our association to you, I would like to bring to your attention our reasons for supporting the Canada-US free trade agreement and why we believe that its achievement is an important step forward for the youth of our nation.

As members of the committee are no doubt aware, one of the greatest difficulties which faces young people today and which faced them in the past is the challenge of securing employment. Although the past few years have registered a brighter picture in terms of jobs for young people, it is, none the less, true that the unemployment figure for young Canadians routinely doubles that of the national average. Invariably, in times of economic hardship, young Canadians are the last hired and the first fired from positions of employment. This reality has sensitized our young people to the great importance of job creation and economic growth, and it has made jobs the number one priority among our youth.

In accordance with this fact, young people place particular importance on initiatives which will act to create further job growth and sustain our economy in the years to come. AFYC believes the Canada-US free trade agreement is a strategic and important tool for creating this growth and, as such, enjoys support in all of Canada among the youth of our country.

Economic analysis of the free trade agreement by many noted economists, such as those from the Economic Council of Canada, the C. D. Howe Institute, the Canada West Foundation and many others, has characterized this agreement as meaning more jobs for Canadians. This fact remains unchallenged by opponents of free trade. I would like to remind members of the committee that the Treasurer (Mr. R. F. Nixon) has even forecast a 2.4 per cent growth in employment in this province as a result of free trade.

1020

This growth is of particular benefit to our young people, for, of the 251,000 jobs forecast by the Economic Council of Canada as a result of free trade, fully 72 per cent of these jobs will be created in the service and service-producing sectors of our economy. This is where three out of four young Canadians presently work and it is also the fastest-growing sector of our economy and an area in which many young Canadians have targeted employment opportunities through their own education.

It is the belief of the Alliance for the Future of Young Canadians that it is somewhat scandalous for opponents of free trade to question the value of over a quarter of a million new jobs when young Canadians do not presently find sufficient employment opportunities from which to grow and build a stronger future.

Furthermore, it is our belief that the enhanced competition that will be experienced under free trade will improve not only the quality of jobs available to our young people, but also provide long-term employment stability through the realization of a more secure access to world-class markets, making our industries world leaders in their fields of endeavour. Sound economic reasoning dictates that the best assurance of sustaining industrial growth and the jobs that accompany this growth is the realization of increased market

mandates. The Canada-US free trade agreement provides an important first step towards increasing our competitive nature by assuring access to the complete North American market.

In addition to the positive impact of job growth for young Canadians, it is also recognized that the Canada-US free trade agreement will benefit Canadian consumers through growth in real income and corresponding growth in disposable income. It is largely for this reason that the agreement enjoys the support of the Consumers' Association of Canada. Young people, like all Canadians, are consumers and will benefit from the consumer gains under this deal. It is important to recognize that these benefits are of particular importance to our youth, as it will enable them to make quicker progress towards making important purchases such as one's first home, first car and many other items which, in all reality, make our young people stronger participants in our economy.

Beyond the important benefits of job growth and consumer gains for young Canadians, the agreement also promises an important characteristic of how this growth will be implemented in our nation. Economic growth in Canada has, historically, been disproportionate, often leading to what can presently be witnessed as dynamic growth in southern Ontario and inside the Golden Horseshoe, accompanied by sluggish and weak growth in the less advantaged regions of the nation, such as the Maritimes and many western provinces.

For young Canadians, this has represented a discrimination in opportunity based on geographic or regional considerations. Many young people, seeing little opportunity for a good future, end up leaving their home town or region in search of better job opportunities elsewhere in the country. This is, in point of fact, a self-fulfilling drain on the future of these underdeveloped communities which acts to frustrate prospects for real and sustained growth.

The Canada-US free trade agreement is unique in addressing this problem, as it is a rare economic influence which operates evenly in each and every province of our country. Be it 2.9 per cent in British Columbia and Newfoundland, 2.8 per cent in Alberta, New Brunswick and Nova Scotia, or 2.6 per cent in Ontario and Quebec, the free trade deal will mean balanced growth throughout Canada.

This an important step forward if we are to build a country of truly national opportunity in which each and every young Canadian can take pride in his own community and region and realize solid opportunities for growth, no matter where he lives in Canada. In a very real sense, it is an influence which strengthens the fabric of our country and acts decisively to address the perpetual problem of regional imbalance, so long the source of great frustration to generation upon generation of Canadians.

Central to the realization of balanced growth are the gains that have been made in the trading relationship with our largest trading partner, the United States. What has been achieved under the Canada-US free trade agreement is not complete and unhindered access to the US market, but it is a marked improvement on what currently exists. In many senses, we do not view this agreement as being a panacea, a cure-all for the Canadian economy, but it is an important step forward, and we urge that members of the committee recognize that fact. This is important to remember since the free trade deal must also be considered in relation to the alternative, or the alternative of not having such a deal.

In the past five years, Canadians have witnessed protectionist actions through the US Congress which have arbitrarily diminished the prospects for various Canadian industries. From fresh-cut flowers and potash to softwood lumber and shakes and shingles, protectionism has not sat well with Canadians, particularly young Canadians.

What we have witnessed is the fearsome power of special interests in the US and their ability to manipulate Congress for their own purposes. In these situations, we have seen time and time again the spectacle of Canadians approaching the courts and Congress on bended knee and asking for fairness from nothing but Americans with American interests at heart. This in no way can be seen as a better situation to what would exist under free trade.

For young Canadians, whose future can be drastically affected by the ramifications of trade actions, the existence of the binational disputes panel is a welcome change from the reality of the US Congress that operates right now. Canada sovereignty is enhanced in this agreement because it means we will now have a deal and an important voice in the kind of decisions that will decide our nation's future as a trading nation.

Yet what most concerns members of the Alliance for the Future of Young Canadians is the way in which this agreement speaks to the identity of ourselves as Canadians, how we view ourselves. The Canada-US free trade agreement is a vote of confidence in young Canadians because it believes in their ability to compete and succeed under a fair and balanced trading relationship with the United States. Generations of Canadians have been brought up by their parents and sent to school in the belief that they could achieve a better tomorrow through the use of education. What is implicit in this rationale is the belief throughout that this youth would have the talent, drive, skills and ability to make the most of what was given to it to get ahead and succeed. If we did not believe our children could achieve results, what would be the purpose in sending them to school?

Indeed, when we look to the analogy of sports competition, we fully and freely participated in the Calgary Olympics, not because we are a nation of the same size as the Soviet Union or the United States, but because we believe that under the fair and regulated relationship that existed at the Olympics, we can compete and succeed, as we did at the Calgary Olympics.

I would ask the committee why we should act any differently when it comes to how we view our youth in comparison to that of the US. When those who criticize this free trade deal call it a sellout of our country, they ignore the fact that they themselves are selling young Canadians short. In saying we cannot compete with Americans on an equal basis, they are affirming their belief that young Canadians just do not measure up to the competition.

I believe that vast majority of young Canadians refuse to accept this vision of themselves. They have seen Canada grow in recent years to become a leader in gross national product growth in 1986 among all Organization for Economic Co-operation and Development nations. Young Canadians recognize this strength and regard opposition to free trade as, in some sense, an insult to our potential.

What the youth of our country needs to witness is a renewed sense of confidence, not only in our country but in those people who will lead it into the next century. Canadians who support the free trade deal will be doing just that.

I want to thank you once again for this opportunity. If I can be of help in responding to committee members' questions, I will be more than happy to do so.

Mr. Chairman: Thank you very much. Are there any questions?

Mr. Kozyra: Mr. Hansen, I would like to address the point you made on the vote of confidence, competition and so on. I think I can agree with a lot of that in the sense that Canadians should be competitive and feel that they can stand up to that kind of competition no matter what, and you draw a good sports analogy.

One of the interpretations I have heard on this deal is that, besides being an economic deal, what really matters and impacts as it relates to sovereignty and other issues is that henceforth, if and when it is signed, every major Canadian decision will be made with an extra partner at the table. It is not a case of competition or standing up to that. It is a case, at least in this particular analysis of what may happen, of being directly plugged in with another big player, and that big player is the US.

When you put it in that way, that is what worries the people on the sovereignty issue: There is another major player in the game and it is no longer a Canadian game. I would like your reactions to that type of assessment.

1030

Mr. Hansen: Mr. Kozyra, I thank you for that question. In terms of the sovereignty issue that relates to this trade agreement, it is of much concern to many Canadians. I would respond to the question of sovereignty in terms of describing how our relationship exists with the United States right now, as we see it.

I do not need to point out to you the fact that Canada—indeed, Ontario more so than any other province, perhaps—operates as a trading province, a trading relationship. Our largest customer in terms of export is, as you are well aware, the United States.

That fact alone, to my mind and I think to the minds of many Canadians who have been aware of the trade actions which we have seen in the last five years, makes that relationship between the two and the influences that both parties can bring to bear on that relationship a crucial reality in which Canadians must operate. We cannot, if you will, be akin to ourselves, alone and separate from that trading relationship.

We have to recognize the realities of how that trading relationship operates. In that sense, I see that this agreement strengthens that process by, as I said earlier, giving us a structuralized and institutionalized voice in the kinds of decisions which have been, in past jurisdictions or past experience, made on somewhat of a quasi-judicial system—being more quasi and less judicial—politically motivated in punitive trade actions.

I think this enhances that kind of sovereignty for Canadians. We will actually have a position at the table, a balanced relationship in terms of the fact that we have two Canadians, two Americans and an impartial person. I think that is a step forward in terms of ensuring and securing our sovereignty within that trading relationship.

If you would ask me whether we can afford to walk away from the

relationship and act completely without reference to the Americans, as our largest trading partner, I would put it to you that that would be unreasonable and certainly not a plausible venue for continued success in our markets.

Mr. Morin-Strom: Could you tell us when your organization was formed and who were the founding members?

Mr. Hansen: Certainly. Our organization was founded at the founding conference, if you will, in the first week of February 1988.

Basically, the idea for the Alliance for the Future of Young Canadians came to mind with myself and the western co-chairman and two of our Quebec co-chairmen on October 1987, when we saw a debate which, for all intents and purposes, experienced a Prime Minister standing up and saying he was doing such-and-such for the youth of this country, the opposition leader federally saying his position on the deal was designed to protect, if you will, the future decision-making power of youth in this country, a future-oriented deal which saw no youth voice on this issue.

We were concerned that young Canadians become sensitized to the issue. In that sense, we founded it, as I mentioned earlier, as an organization of young Canadians across the country, from political parties, be it Conservatives or Liberals from Ontario and the treasurer of the Alberta Liberal Youth. I can think of some Conservatives.

We have the national president of AIESEC-Canada, which is students of economics and commerce. We have some members from the Canadian Junior Chamber—Jaycees. Indeed, we have student council presidents, speaking as individuals, from right across this country.

I would certainly be more than happy to provide you with that list and send it to you. It is nonpartisan and we take no direction or funding from any political party, be it Liberal, Conservative or New Democratic.

Mr. Morin-Strom: Is the membership individual or is it an alliance? Often an alliance indicates an alliance of organizations as opposed to individuals.

Mr. Hansen: We have both in our membership and I will take a moment to outline to you the groups which are members to date of our organization, in terms of organizational strength.

First and foremost, we have the endorsement of the student senate of Wilfrid Laurier University. The student senate passed a motion in favour of free trade and endorsing itself as a member of the Alliance for the Future of Young Canadians. That, as I remember from a letter from Doug Earl, I believe, who is chairman of the student senate committee, claims representation now of 7,800 from that school, if I am correct in quoting those numbers.

In addition to that, we have the membership of the British Columbia Young Social Credit. They passed a motion at their spring convention endorsing the Alliance for the Future of Young Canadians and endorsing free trade. We have the membership of the Ontario Progressive Conservative Campus Association. That may not be a surprise to members of the committee but, as I have said, we are an organization which seeks to represent the views of all people on this issue who support free trade, wherever their background.

We also have the membership of a number of nonpolitical groups:

Saskatchewan Youth for Free Trade; Manitoba Committee for Free Trade, youth division; there is another group in British Columbia; of course, Toronto Youth for Free Trade, a nonpartisan, nonaligned group. We are making very concrete approaches to the Junior Chamber of Commerce nationally. We will be attending its conference in Thunder Bay on July 1 and I anticipate that we will be able to gain its membership.

We have also had very extensive contact with the Quebec Liberal Youth and we are very optimistic as to its prospective membership in that group.

Mr. Morin-Strom: Who provided the funding for the founding conference?

Mr. Hansen: We went out on an individual basis to raise our funds from individual members who gave of their own time and also donated funds to our organization when they arrived in Ottawa and, in many senses, paid on their own for many of the actions they had to undertake. In addition to that, our funding is largely based on the fact that we have gone to the business community in Canada, independently and of our own volition, and represented our organization to them and said, "Really, in many senses, we are the future employees—indeed, perhaps employers—of tomorrow and we would like to see your people supporting the visions we have of realizing free trade."

In that sense, we have raised money from corporations right across this country.

Mr. Morin-Strom: Not from the federal government?

Mr. Hansen: None whatsoever.

Mr. Morin-Strom: OK. At least there is a bit of difference from the Economic Council of Canada, which had all its directors appointed by the Prime Minister.

Mr. Hansen: We do not have a dime. I stress that point because I think we are quite conscious of the fact that we want to be credible on this issue. I would put it to you that being credible means not having financial ties to parties or governments.

Mr. Chairman: What is the student senate, as opposed to the normal student council, of Wilfrid Laurier University?

Mr. Hansen: The student senate represents full-time students, part-time students and mature students, so it is even broader than just the student council and it encompasses representatives from the student council.

Mr. Chairman: When you say 7,800 students, you are basically including all of those students who had a chance to vote for the members of the student senate. Is that what you are saying?

Mr. Hansen: Yes, I am.

Mr. Sterling: I would like to congratulate you, Mr. Hansen, and the other young people who have been interested in the issue, regardless of the position you might take on it, although it is, of course, favourable to where our party sits on the issue. I think it is important that young people do get together in terms of political issues and go ahead.

I have sat as a member of the Legislature for almost 11 years—it is 11; what is today? I was elected 11 years ago today. For the first time, I sometimes wonder why—and under any circumstances I think that young people taking an interest in a political issue is an extremely healthy thing for our country.

In terms of your statement, the one part I was interested in was the various percentages in growth across the country that you quoted. Could you just tell me where you got those percentages from?

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Mr. Hansen: Those percentages are quoted from the 24th annual report of the Economic Council of Canada. Those are also percentages which were sustained in their recent updating of the council's assessment of the free trade deal. That is where those figures have been drawn from.

Mr. Sterling: I do not think you will be able to answer this question, but perhaps our researcher can. I understood that the Ontario Economic Council is supported by the Ontario government, but is set up as an autonomous body. Therefore, while they owe their financial accountability to the Ontario government, I do not think they are directed by the Ontario government as such. Is the Economic Council of Canada not funded in the same way? I think the Economic Council of Canada is partly funded by the government of Canada and partly by private industry. Do you know anything about this?

Mr. McLellan: I would have to look into that. I am not sure what the funding is.

Mr. Chairman: We had some questioning of the chairman when she was here, but my recollection is a little vague as to what her answer was.

Mr. Sterling: I just wondered, because there is a veiled allegation that they are toeing a certain line because they are funded as such. I always understood that these economic bodies were funded on a sort of block basis and then it was up to them to make their decisions as to which way they pulled.

At least I can remember as a member of cabinet that there were times when we were not at all pleased with what the Ontario Economic Council said about us, but the fact of the matter is it was a worthwhile exercise in terms of having learned economic opinion on various issues. I just wanted to straighten that around.

Mr. Chairman: The transcript might be helpful to us because the questioning was of the same kind. I think it was Mr. Mackenzie who asked about that. Do you recall the answer you got, Mr. Mackenzie?

Mr. Mackenzie: No, I do not.

Mr. Chairman: We will look that up.

I have a couple of questions. You say on page 3 that the suggestion by the economic council and the C. D. Howe Institute that free trade means more jobs for Canada is unchallenged. Would you care to expand on that? Are you suggesting that there have been no groups or individuals who suggest that we might be losing jobs?

Mr. Hansen: No, I do not mean to suggest that. I made that statement

in the context of talking about the Canada West Foundation and the C. D. Howe Institute being representative of economists.

I have not seen, and I would more than welcome seeing, an economic analysis of this agreement which talks about job loss in terms of using econometric models.

The thing that comes closest to that, or anywhere near, is the National Action Committee on the Status of Women's report prepared by Marjorie Cohen, which described the agreement as meaning a loss of jobs. The committee did not use an econometric model.

I would also point out to members of the committee that calling Marjorie Cohen an economist is somewhat scurrilous because she has a PhD in education and no basis in economics.

Getting back to the comments as to where it remains unchallenged, yes, there have been groups which have talked about job losses, but in terms of economic analysis, I remain to be apprised of an economic analysis which talks about job losses in terms of net growth.

Mr. Chairman: You are saying that none of the economists who talk about job losses has used an economic model. Is that what you are saying?

Mr. Hansen: Yes. I have not seen, in terms of economic studies, any comparable to what we have talked about in terms of the 24th annual report, the assessment by the Conference Board of Canada.

Mr. Chairman: You are not saying that they simply have not utilized the economic models that these particular groups set up to disprove what was proven with those models. You are saying that there is nobody who has used any model to show job losses.

Mr. Hansen: I have not seen one. I would be more than happy to be made aware of one. Those who oppose the agreement have not often challenged the question of job employment, but rather they have raised the spectre of sovereignty as their rallying point in opposing the agreement.

Mr. Velshi: I am quite impressed with what you have said here. I have just one little question about page 4 on balanced growth. You make mention of the fact that southern Ontario and the Golden Horseshoe have a disproportionate rate of growth compared to the rest of Canada.

In your mind, what do you see with the advent of free trade? Let's look at Saskatchewan or the Maritimes. With free trade, are those provinces, those areas, going to suddenly become industrial giants supplying the northern states of the United States? If they could not compete with southern Ontario, why do you think they would be able to fight New York state? What do you envisage? Where are the jobs going to come from?

Mr. Hansen: First and foremost, I would like to stress that we have no illusions that Saskatchewan, for example, is going to replace Ontario as the industrial heartland of Canada.

Having said that, I think it is also important to recognize that the restrictions that have existed on the possibilities for growth in Saskatchewan or in Atlantic Canada or wherever have been in many senses reduced, or I should say the restrictions have been fairly significant, in terms of.

geographic location, in terms of how focus has been centred on central Canada in terms of tariffs.

What the elimination of tariffs under the free trade agreement will mean is that somebody who is a producer in Saskatchewan, be it of hogs or of some services, will have secure or more enhanced access and complete elimination of tariffs to provide his services, his products, his market mandate to somebody quite close to him in terms of perhaps accessing a state in the American Midwest.

As an example of that fact, I remember a piece on CBC's Venture program in which they were talking to a hog producer in Saskatchewan who outlined that between the application of countervailing duties and the tariff protectionism that existed, he had a market of five million or six million, as he saw it, sitting 3,000 miles away in southern Ontario and a market of 25 million 1,500 miles away in southern California. "Where do you think I want to go?" was his statement.

With the elimination of tariffs under the free trade agreement, it allows the economic realities to operate more fairly to the regions of this country. I think that is an important gain for the regions to allow them to start off the process of building a better infrastructure for their economies.

Mr. Velshi: Again, what comes to mind is a very simple process of our hogs going into the midwestern states. You do not think the hog breeders of the midwestern states are thinking of the same thing, that they are going to have Saskatchewan open to them and they are going to send a million hogs there and ruin our hog industry. Have you been looking at both directions or just the fact that here the market is 10 times larger than our population?

Let me give you the example which I think our Minister of Industry, Trade and Technology (Mr. Kwinter) once used. If the Oreo cookie factory in Chicago works 15 minutes extra a day every day, it has enough capacity to support the whole of the Canadian market. Why would our cookie factories here want to remain in existence, and how will they be able to compete with giants like that?

Mr. Hansen: First of all, on the question you raise in terms of whether we are considering this naïvely, just looking at Canadian export opportunities and not realizing both sides, I do not believe that. I believe, and the alliance supports the view, that yes, of course, there will be balanced opportunities. There will be areas in which Americans will succeed in securing export opportunities to Canada while, at the same time, Canadians will be securing better export opportunities.

I also believe that we have in many areas very high quality, if not better quality, products than American competitors. I would just point out, as an example, that American steel producers are scared to death of the free trade agreement because of the fact that we have higher productivity, a better product coming out of Canada, and we have been faced with import quotas and various other barriers to trade which have hurt that prospect for trade.

I think there are opportunities where we will be able to access the American market positively. At the same time, there will also be opportunities where Americans can have access to our Canadian market, of course. That is why it is a trade agreement that is balanced. There would not be a point in the Americans signing such an agreement if it were all one-sided. However, I do believe that the increase in bilateral trade as a result of free trade will

prove beneficial to the economy in terms of net growth, in terms of benefits across the board.

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When you make reference to the question of capacity of production, there are certain examples. I can think of Hobart Canada Inc., for example, which has a very small factory in Owen Sound to service its needs up here and a much larger factory in the United States. There is an example where that would apply.

I would also point out to you that there are countless other examples on the other side of the scale which point to the fact that Canadian companies in many situations are some of the best producers inside that corporate or multinational structure. They also deserve the kind of recognition that will operate under free trade.

I would point you to the fact of the Canadian auto industry and the fact that General Motors, a multinational if you will, an American company which chose to invest \$11 billion in Oshawa, its largest and most modern plant in the world—in the auto industry it is perhaps the most modern plant in the world—because of the productivity, the competitive nature of Canadian workers and the advantage the company has seen under the Canadian dollar.

I believe that Canadians can compete and succeed in many areas and that this emphasizes those opportunities.

Mr. Velshi: I like your enthusiasm. I think it is great, but I am just concerned because even with our auto industry we are looking at the Canadian content aspect of it which has now disappeared into a North American content side of it. When you come to the side of balanced trade, perhaps you are looking more at your strong feelings that we are able to compete. I am not too sure whether the figures really prove that.

Mr. Chairman, I will stop at that. I just wanted to thank Mr. Hansen for his presentation. I liked it.

Mr. Hansen: If I could just make a quick comment, I do have some understanding of the auto industry. I know, for instance, Norman Clark of the Motor Vehicle Manufacturers' Association and I have discussed this with him on past occasions.

The most important reason—and I do not intend to rely exclusively on enthusiasm for being optimistic in terms of how this deal will implicate Canadian production—the major reasons for the Canadian auto industry existing as it was or as it is today are economic factors, not the safeguard provisions. The safeguard provisions were important in setting up the industry. It is important for committee members to recognize that those were supposed to be temporary measures to exist for five, six or seven years. They were never removed, but in point of fact they do not operate in real terms to protect Canadian industry from the harsh realities.

When Chrysler, back in the 1970s, came to a position where it was in massive debt, it had to restructure in terms of production. They did not make the quotas. The Canadian government and the Ontario government were faced with the alternative of looking to either penalizing them to the point that it would put them into bankruptcy for not making the quotas or letting them skip by and not make the quotas. It was a case of "They did not make the quotas, but we will let them operate because we recognize the difficulties that are there."

I think a far better way of protecting the auto industry, and indeed other industries, is making them competitive in that sense.

Mr. Chairman: You are aware that the voluntary restraint quotas on steel would still be there and would continue with this agreement.

Mr. Hansen: Yes.

Mr. Chairman: Or are you suggesting something else?

Mr. Hansen: That is quite true, but there is also the spectre of the fact that while the voluntary restraint quotas will still exist, what we have seen in the past is a terrible fear among Canadian steel producers of the fact that they are going to get hit again and again and diminished in terms of their market opportunities in the United States. The American Congress will not have the opportunity to do that under a free trade agreement. Even if it is looked at in terms of maintenance of market levels for Canadian producers, it is an important gain.

Mr. Chairman: Mr. Pelissero and Mr. Mackenzie each have supplementaries they would like to get in. Be quick and to the point.

Mr. Pelissero: You talk about the pork situation with the Saskatchewan farmer. What would be your feeling if we went to 90 cents or 95 cents Canadian versus the American dollar and the impact that would have on the amount of goods moving into the United States, particularly in the hog situation or even expanded beyond that, if you like?

Mr. Hansen: I think the relative exchange value of the Canadian dollar versus the American dollar has been and I would think would continue to be an influence, regardless of whether you had a free trade deal. You can just look to the fact of where Canadian exports go. It has a major influence.

I think that influence will operate however it will. Obviously, in many senses it is not as beneficial as one would like to have a higher-valued dollar. I would also point to the fact that one of the things we have to recognize is that the rise of the dollar is in many senses a recognition of Canada by the international community and of its prospects as an investment opportunity, its prospects and power as an economic force in the world. They are bullish on Canada and that has the major influence on the exchange rate situation.

In terms of free trade, I do not see a direct connection between the two. The influence of exchange would operate regardless of whether we had a free trade deal.

Mr. Pelissero: Just for your information, and I have this from the research department, Ontario's exports by destination from 1977 to 1986, over a 10-year period, have risen almost 10 per cent, from 81.3 per cent of our goods going to the United States to a high of 90 per cent. That is an increase of about nine per cent. Over the same time period, the Canadian versus the American dollar has gone down almost 20 cents.

If you took it the other way, if we had an almost 20-cent increase in the exchange rate, I would have to go back another 10 years and beyond to see if there was a pattern, to say that in fact we would lose 10 per cent of that market. I would think you could tie that almost to the exchange rate. It has to be. We heard from the forest products manufacturers who appeared before us,

one company alone, that every one-cent change in the Canadian dollar versus the American dollar was a loss of around \$15 million.

Mr. Sterling: You cannot rule the other factors out, though.

Mr. Pelissero: No. I am just looking straight at exchange rate, saying it is still going to play a role in the amount going into the United States. While we want to be world-class competitive, if right now one of the basic foundations of why we are competitive with the United States is the exchange rate, then that should have some serious considerations in terms of long-term growth and strategy not only in the United States but around the world as well.

Mr. Chairman: Was that your question?

Mr. Pelissero: I see a direct relationship between exchange rate and the amount of exports going into the United States, and a concern I do not think has been addressed in the free trade agreement has been the whole discussion around the exchange rate fluctuation and the impact.

Mr. Hansen: I would just like to take an opportunity to quote to you from the Conference Board of Canada. Quite recently—actually, just a few days ago—it did an assessment of the free trade deal. I wish to stress that I do not deny the influence that exchange rates have on the trade implications or trade realities. For instance, you mentioned forest products. In certain areas those are quite valid statements. The Conference Board of Canada is an independent body; even in terms of funding, it is not funded by the government, I do not think, for a dime. It has looked into it on its own basis. It sees "no change in the exchange rate or dollar or in interest rate spreads between Canada and the US, key concerns of the business community, as a result of free trade."

I think addressing the exchange rate situation in the free trade deal would be counterproductive. That would be a major question in terms of sovereignty, whether we pegged our exchange rates into the trade agreement. I do not think that would be a good move at all.

Mr. Villeneuve: Mr. Hansen, Ms. Frum, thank you very much for appearing before us this morning.

Mr. Velshi mentioned the auto pact. The committee had occasion to visit the United States a month and a half or two months ago and we heard from some very high officials in the United Auto Workers' union that they were very much against the free trade agreement. The reason they were against it was that they feel we have a definite advantage, which is basically locked in by the free trade agreement between Canada and the United States. Their second reason to not want this agreement to be signed is that they want to dismantle the auto pact.

It is that simple, and it is not a hidden agenda. It is there in black and white, and that is the reason the American auto workers do not want to see the free trade agreement set in place. They want to dismantle the auto pact and the free trade agreement has basically reinforced and strengthened it. I think that certainly bears mention whenever you talk about the free trade agreement and the auto pact.

I am interested in your overtures to young Québécois. Again, I had occasion to be in Quebec on an exchange visit, and Quebec and the Liberal government there are very, very positive towards free trade. It will be interesting to see when and if your group is joined by the Quebec wing of the young Liberals. If anyone is really worried about sovereignty, I think Quebec probably is the most concerned about sovereignty. We need only to look back over the last 10 years at their political activities.

I have noticed that in Quebec they have many, many mechanisms in place, particularly along the New England-eastern seaboard area, to put free trade in place as of the beginning of next year. For instance, they now have obtained markets for dairy products and other like agricultural commodities. We need not talk about the hydroelectric surplus; it will definitely be going into the US.

Can you comment on the lack of such initiative by the Ontario government? I guess we stand to be yipped on this if we do not do something positive to put this thing in place. Could we have your comments, as a very forward-looking group and representing a very forward-looking group of young people?

Mr. Hansen: Thank you for the question. As national co-chairman for Ontario, I particularly appreciate that question, because we will be circulating to members of our group who are coming out to this event on June 20 postcards to send to the Premier asking him to take a serious second look at the deal and also to be looking at preparing Ontario for the reality of free trade. I would submit to members of the committee that it is indeed in all likelihood a reality that this is coming.

You comment on the fact that Quebec is well prepared and has been preparing its way for that, and I agree with that assessment. There is a good deal of enthusiasm, and I believe the Quebec Liberal government has recognized the upcoming reality and has moved decisively towards achieving something in that direction, preparing the economy, preparing directions for it.

Ontario concerns me in so many ways because of the fact that we seem to be lost in beating a dead horse in many ways, in hitting rhetoric on the issue and not doing the work that is necessary to be responsible to the future of the young people of Ontario; that being to look at market initiatives for Ontario: Where can we benefit? How do we best prepare ourselves for this?

I would point to the example that in Ontario we have seen the Premier very much taking on the interests and the representation of our Ontario grape growers, not looking at fighting the free trade agreement head on and not preparing for the inevitable change that will come as a result of free trade. In my view, this does not serve grape growers best. When we look to British Columbia, we have seen British Columbia preparing transition programs for these growers, preparing studies for them on implications of finding market initiatives and on trading off into other forms of production, be it tender fruit or whatever, and changing themselves to prepare themselves for the reality of free trade.

There is a day for contesting the issue of free trade. I would think in many minds this day has passed its point of prudence. Even if you do not agree with free trade in many senses, I would think it is prudent for Ontario to be preparing young Ontarians, to be preparing the Ontario economy and to serve those interests best. I really firmly believe, and I believe economic analysis has pointed this out, that there are many, many opportunities for Ontario to

benefit under this trade agreement. We encourage Ontario to take positive action in preparing for those kinds of opportunities and making the industrial community, the business community and, indeed, our education programs responsive to those kinds of changes.

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Mr. Villeneuve: I think a prime example of that, in the area I am probably most conversant with, is agriculture and food. A study came out by the Ministry of Agriculture and Food saying that the Ontario agrifood industry would be affected to the tune of \$95 million, and it is still hanging out there. I do not believe this government believes in its own report because, in the most recent budget, the Ministry of Agriculture and Food received a four per cent increase without addressing at all the concerns that it has expressed vis-à-vis the agrifood business.

Second, you speak of the grape producers and the wine industry. Yes, we know that both the General Agreement on Tariffs and Trade decision and the free trade agreement have had adverse effects. However, there has been no redress whatever from this provincial government. The federal government has addressed the taking away of the two-price wheat system with \$2 billion coming in, and probably more to come, as an interim measure to have this agreement put into place. That has been looked into and looked after. Monetarily, the government of Ontario has simply paid lipservice.

Mr. Chairman: Your question?

Mr. Villeneuve: My question is to our presenter here. The dollar value indicates to me that there is a great deal of confidence, both in the Canadian economy and in the youth of Canada, that we are able to compete. Could you further comment on the fact that if our dollar goes up from 82 cents to 85 or 90 cents, that is simply a reflection of a very healthy economy and that we cannot have that without a healthy economy? You cannot have it both ways. I think a free trade agreement would open the gates to freer trade and remove some of the tariff barriers that are there. There are not that many, but there are some. The fact that our dollar increases vis-à-vis the American dollar indicates that we are doing very well, thank you very much.

Mr. Hansen: I would like to respond to that by saying that it is important to recognize the fact that there are more than just exchange rate influences operating on our trading relationship with the United States and Ontario's trading relationship. The reason we saw our dollar drop so dramatically in the early 1980s was that we had an economy that was severely affected by inflation. Those types of uncompetitive characterizations of how the Canadian economy was operating at that time caused our dollar to be devalued. It was a direct reflection on how our economy was operating at the time.

That enabled us, in many ways, to take a step back and take a breather, because the exchange rate dropped down and enabled us to begin the process of recovery. We talk about what will happen with exchange rates going up and whether we will be disadvantaged, yet, by the same token, as you point out, it would be a reflection of renewed confidence in the Canadian economy, indeed in Ontario's economy. It is not just renewed confidence because of intangible factors. It will be renewed confidence because of the fact that we have become more competitive, and that is the other important influence that operates in the trading relationship, how efficient our industries are and how competitive they are in relation to other world suppliers and world manufacturers. That is

the other side of the trading relationship, beyond just the exchange rates. I think Canadians are well served by an economy, an industry and a business community that are becoming world-class leaders because of competition.

Miss Frum: On the issue of the Ontario wine industry, I will add that we are representing young people and the one thing that young people bring to this question is that we do not necessarily accept that the way things are today is the way things should always be, and that is why we are involved in this question.

If you look at an industry like the Ontario wine industry, which may not be competitive and which, as a taxpayer in Ontario, I am paying to support, it is natural for me to ask, "Is there not a better way to run this business?" I have since heard that there are many members of the wine industry in Ontario who have looked at innovative ways to participate in the economy. For example, instead of making wine, perhaps they should be making grape juice. In fact, there companies that are looking towards this as a new market. It turns out we make terrific grape juice.

Mr. Chairman: We are running overtime. I know you would be happy with that answer. I thought perhaps Miss Frum was going to say that we should not be—

Mr. Pelissero: More than half of the grape growers and probably a third of the wineries? Did you have grape juice this morning for breakfast?

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Miss Frum: I happen to be a big fan of grape juice.

Mr. Pelissero: All the promotion in the world does not help if you are not going to buy the product.

Miss Frum: The point is, if the product is good, I will buy it.

Mr. Pelissero: It is an excellent product.

Miss Frum: My point was simply that as young people we do not have to accept the economy exactly as it is today.

Mr. Chairman: As young people, you should not be drinking wine anyway. I am going to give the last question to Mr. Mackenzie.

Mr. Mackenzie: Actually, I have two. I have been waiting for them. The first should only take a second. You made a point in responding to my colleague's questions about your organization, which I guess is not quite a year old.

Mr. Hansen: Not quite.

Mr. Mackenzie: On the importance, for your integrity and independence, of raising your own funds and not having a political orientation, I think your words for your integrity on this issue were that you did not want or could not have funding from government or other sources. On the reverse side of that coin, I am just wondering if you feel the integrity and position of, say, the economic council or some of the other groups that do have funding and have all of their people appointed by the government are at risk as a result of that. If your position is that you cannot maintain your integrity with funding or direction politically, what about their integrity?

Mr. Hansen: I would like to open a comment on that by saying that, much to our benefit, our needs are not perhaps as great financially as those of the Economic Council of Canada. I can see where they would have some need of funding from government sources.

Mr. Mackenzie: My question was whether or not their integrity is at stake as a result.

Mr. Hansen: My understanding of the Economic Council of Canada is that it does have a very arm's-length relationship. I would point out that the arm's-length relationship has existed. They have been more than happy to be critical of federal governments, provincial governments, whatever, in their past history. I think that independence speaks for itself. To my recollection, the government is not the largest single contributor to the Economic Council of Canada.

If you prefer to look beyond that, we can also look to the C. D. Howe Institute or the Conference Board of Canada. The Conference Board of Canada subsists strictly on contracts from the business community, which asks it to do assessments of things.

Miss Frum: It is also not necessarily true that a group that receives money from government is supportive of that government. There are all kinds of examples in our society. One that comes to mind is the medical association or the committee for women. They are hardly supportive of the federal government, yet they receive all their money from that institution. So I think it is a false premise.

Mr. Mackenzie: I was just wondering, because you made the point that for your integrity on this issue, it was important that you not have it.

Mr. Hansen: Just in quick response to that, we set ourselves out a program and set ourselves out where we felt that questions of such a nature could arise, and in our position we would be incredibly vulnerable to such criticism. We did not want to be subject to that and we followed our path accordingly.

Mr. Mackenzie: That may have been a little provocative, but the question I really want to ask relates to another comment you made. You made a very strong statement that the economic realities of free trade meant more fairness. I think we were discussing the job creation issue at the time. I want to give you three examples and just ask you how you would relate to them. In my community, Firestone right now—

Mr. Chairman: Let me stop you right there. I see the clock going around, and Mr. Ferraro gave me a terribly dirty look when I said you would be the last questioner. Is it the wish of the committee to continue this, as opposed to housekeeping?

Mr. Mackenzie: I want to finish my question. I have no objection to that.

Mr. Chairman: It will just give you more scope.

Mr. Ferraro: By the way, I got caught in that damned accident on Highway 401. I apologize to everybody, but I would like to ask two questions.

Mr. Chairman: So did I.

Mr. Mackenzie: I do not think anybody should be cut off.

Mr. Chairman: The pressure to write a report is off, so go ahead.

Mr. Mackenzie: OK. The first of the three examples I will give you is Firestone. We are in the middle of real uproar in Hamilton right now because Firestone US has just made a real pitch which has all the people who were in that plant upset. They want six to eight of, not management people, but the key tire moulders and makers and bamber machine operators to go down to their plant in the US because the Canadian expertise in Hamilton is so much better. It is needed to put their plant in an operating position; a plant, incidentally, where there are much higher wages, even with wage cuts. It is not as efficient and does not have the new product development that went on in the Hamilton plant. In other words, the most efficient plant in the Firestone chain was the Hamilton plant, which has gone down the tube, of course.

And not on permanent contracts. They have made it clear to these people that they will be working for only three or four months until they can train some of the American workers to do a little bit of a better job. That leaves us with only two or three tire makers left in this country and probably we are going to be down to one within another two or three years.

I wonder how you relate that in terms of fairness, because I can tell you how the 1,400 workers in Hamilton relate what happened to them. It has a very direct connection to free trade.

The second one is the auto pact. You tried to cover the fact that we have been successful there by the fact that the protection was there or the safeguards in setting it up were there. I wonder if you would not at least acknowledge that the safeguards in setting up the auto pact led to the one and only major example of value-added manufacturing where we have shown real gains. It is because of the health of the industry as a result of a managed trade agreement that we are doing as well as we are.

I can tell you that some of the parts manufacturers themselves do not agree with the position. I can certainly tell you that Bob White does not agree with the position at all. I can also tell you, in response to Mr. Villeneuve's comments, that part of the United Auto Workers' argument in the United States—my interpretation would be a little different from his—was also that it meant we were putting business totally in charge. Their experience has not been very good when they do not have much say in the decisions down in the US as well.

The third one is the steel industry. You said the steel companies had such an advantage here. I am wondering if you are aware that the people in the steel industry tell me, both union and management people, that the imbalance is already gone with the advent of the very specialized mini-mills, and that we are going to see a rather dramatic shift, as it is, possibly to the US, with the specialized production of those mini-mills within the next two to three years.

I am not sure of your examples. I think there are serious questions in them. In the auto pact, as an example, because we have a managed deal, it is the one major industry where we have some real employment and some real strength, and as I say, the only industrial value-added manufacturing where we have a real surplus in this country.

We went the opposite way in farm implement machinery. Certainly Massey,

and ??Case or the fired ex-Harvester employees are wondering when they are going to be out in my town. It is probably the next plant to go. These workers saw no restrictions, no managed trade. It is a completely open border. In 25 years we have gone from having a major farm machinery manufacturer to almost nonexistence in this country today.

I just use that as a comparison with the auto pact, where we had a managed agreement and where we have done very well, thank you, as against going totally down the drain in farm implement machinery. How do you relate those in fairness, that free trade means fairness?

Mr. Hansen: First of all, I appreciate a very detailed question and I certainly appreciate the opportunity to respond on each of those points. In reference to Firestone, I quite agree with you that there is an example of hardship, if you will, for Hamilton workers that is quite difficult. You make the example of being an efficient plant—

Mr. Mackenzie: The most efficient.

Mr. Hansen: Right, the most efficient plant, but not gaining recognition or achievement from that fact. That is a detrimental situation, a very damaging situation. In terms of relations and where the government loans that went to that company are going to be going in the future, our group would certainly encourage vigilance in terms of getting back Canadian money that was put into that plant in Hamilton.

Mr. Mackenzie: That is not going to get the jobs back.

Mr. Hansen: I agree with you that they will not get the jobs back but let us not give them a gift on the way out the door.

I think one of the important realities we have to look at here is that this fact occurs outside of the free trade agreement. The free trade agreement is not in effect yet and it had little or no influence on the fact that Firestone left. In terms of how it relates to the issue of free trade, I think the connection is weak.

Mr. Mackenzie: The Firestone management do not agree with you on that. They will tell you the opposite—the Canadian management, that is.

Mr. Hansen: That may be their perspective. I could point to examples. If we have to get into a battle of example by example, we could be here all night and that does not serve a good understanding of the question.

Per se, I think we have to step back from the kind of situation that does that and balance net results. That does not always address your concern. There are workers in Hamilton who are not pleased by that fact. I am sure there are workers in Etobicoke who are not pleased with the Goodyear decision, but there are workers in Napanee who are pleased with it. Economic realities operate, and I think have operated, with or without the free trade deal.

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Secondly, you raised the question of the auto pact. I mentioned in my earlier response that the safeguards were important in the initial stages of setting up the industry. In point of fact, we had no industry whatsoever in terms of auto production other than minimal facilities in Oshawa at the time. The reality is that the McLaughlin Motor Car Co. facilities up there were not

competitive, if you will, or, on a strength basis, anywhere to what the Canadian auto industry exists under right now. They were important in setting up that relationship and achieving what we did in the first five years but the growth and dynamic performance of the auto industry has been detached, in my opinion and in the opinion of a number of analysts, from the safeguards in many years.

The reason it operates right now on an effective basis is because it recognizes and takes advantage of the opportunities of access and Canadian productivity, of access and the Canadian dollar, of recognizing the fact that Canadian workers are good workers and good producers.

Mr. Mackenzie: It would not have been set up without that agreement in the first place and we would not have had this expansion.

Mr. Hansen: That is true, but I would turn you back to the fact that there is a dissimilar nature between the auto industry as it existed in relatively insignificant proportions and other industries which are going to be affected by the free trade agreement—telecommunications, to just use one example, where—

Mr. Mackenzie: Let's switch to the farm implement industry and what has happened there, where we do not have any kind of agreement.

Mr. Hansen: I do not want to belabour the point, but I do not deny that there are winners and losers in this agreement. Winners and losers will exist in this agreement. What is important to recognize is the net benefit, because if we get bogged down in looking to specifics all the time, we step away from the big picture and I do not think that serves either Ontario's interests or the national interests.

When you mentioned the steel industry, about benefits perhaps of the smaller mills coming on, I would simply point to the fact that I have had extensive conversations with John McNamara, with Gerry Heffernan at Co-Steel Inc., and the chairman at Stelco—I forget his name—and those people are really convinced of the fact that they are going to be able to make major gains in this agreement.

Mr. Mackenzie: Mr. Phillips in Edmonton? Have you talked to him?

Mr. Hansen: That is true. I want to stress the point, in terms of looking at who speaks for whom—and we got into this issue last night in Owen Sound when I was debating the free trade agreement—it is an important consideration that when the people who are in this industry say it is good for them, why does that seem so strange?

I think it is their own bread and butter. It is their own existence that is at stake in this agreement and I hardly expect that they would walk up to the free trade agreement and say, "Let's be sacrificial lambs and an ox for the slaying because we like a Conservative federal government" or because we like whatever. There are self-benefiting motivations and honest appreciation of the deal that motivate the appreciation of this agreement by the steel industry.

Mr. Mackenzie: You know, of course, that in testimony before the various committees, including the cabinet committee, and in the scrums that followed, it was made very clear that what they were really protecting or trying to protect was the status quo. The point I am making with you is that

even that may be at risk now with the new, very specialized and highly productive mini-mills which are changing the picture in steel in the United States considerably in the last couple of years.

Mr. Hansen: That is a prediction which may or may not apply directly. That remains to be seen in terms of how well-developed those facilities become in the United States. The fact is right now that we are extremely well-developed in Canada. You are right to talk about the fact that they are protecting the status quo. I say more power to them if they are going out to protect the status quo. It is their industry, their market, their jobs and their investments to lose. They went out to do that and I think they are very pleased with the result of this agreement in terms of protecting the status quo. I would also put it to you that they have the capability, as past experience has shown, to become very competitive. In fact, I am confident they could have that same competitive nature in the future.

Mr. Ferraro: I thank the committee for giving me some time. I am sorry I was late for your presentation. I apologize. I have two questions and I hope I am not repeating one that was asked.

On page 3 of your report, there is a revelation that is startling to me. You say in the third paragraph, last sentence, "I would like to remind members that the Treasurer of Ontario has even forecasted a 2.4 per cent growth in employment in this province as a result of free trade."

Could you tell me where you got that from?

Mr. Hansen: That was in the Treasurer's assessment. If I can remember, it came out—

Mr. Chairman: December 1987, I think. Is that the one? The prebudget statement?

Mr. Hansen: Yes, I think that is the one I am referring to. I have it back at the office.

Mr. Ferraro: What, the fiscal and financial review for the province?

Mr. Hansen: It was effectively kind of buried, in many ways.

Interjection.

Mr. Ferraro: Wait a minute. What report are we talking about?

Mr. Chairman: There may be an allegation that it is not being correctly interpreted here. Is that what you want to say, Mr. Ferraro?

Mr. Ferraro: I think that is the point I am trying to make. If it is the review of how the Treasurer thinks Ontario is going to function economically—is that what you are talking about?

Mr. Hansen: Yes, under a free trade agreement. The assessment was based on the implications of free trade for Ontario and how it would operate on the economy, and that is the result of that study that talked about 2.4 per cent employment growth in Ontario. It is not taken out of context.

Mr. Ferraro: I do not recall that specifically ever said by the Treasurer, that we were going to have 2.4 per cent growth.

Mr. Hansen: I would not expect the Treasurer to trumpet it, by any means.

Mr. Chairman: We have discussed this in the past. Miss Anderson is going to get another copy of it and we can take a look at the text again.

Mr. Ferraro: I suspect that is your interpretation.

Mr. Hansen: It was in the Globe and Mail.

Mr. Ferraro: We will take a look. That is fine.

My second question really is—I must tell you that I am personally a supporter of free trade—

Interjections.

Mr. Ferraro: It is nice to know that when I arrive I wake up other members of the committee. It is very refreshing. You could save a lot of money on NoDoz merely by asking me.

Having said all that, I read your presentation and I agree with many of the points that you make, in principle if not specifically, and you said in response to one question, "There are winners and losers in these deals and we don't want to get bogged down in specifics." I am not sure that that, in essence, is really fair, quite frankly.

You have made a positive pitch, which I respect and appreciate. On the other hand, being a proponent of free trade myself, I have some specific concerns—indeed, some serious doubts—that make me question this deal.

I would think that young Canadians in particular would have some specific concerns about this, realizing that the net is a positive impetus on your part. Would you elucidate to me some of the negative concerns?

Mr. Hansen: Specifically, to respond to that question I want to characterize what I said, perhaps, in responding to the earlier question. I did not want to get bogged down in sitting and giving one positive example, going with a negative example, a positive example, a negative example, because I think, as you are well aware, those opportunities are available. I do not particularly see that in this forum it helps to just give one example versus the other, because it does not accomplish a lot of objective views, really, in a sense.

I am not unappreciative of the impact that it has in specific areas, the negative impacts as well as the positive impacts, and we are certainly as well aware of many positive impacts as we are aware of some negative impacts of this agreement.

Mr. Ferraro: Without getting too specific, what has me concerned is that I can share many of your concerns and many of your positive feelings towards this deal, but what I think, really—as a Canadian, not as a member of any particular party—is disgusting in particular, for example, on the energy and resource sector, is that it is a significant loss of sovereignty. In my view and my understanding of the deal, that in itself negates any of the positive, and I say that as a Canadian. So being specific, just to mention that one, and I could mention a couple where I have concerns—

Mr. Hansen: I would be more than happy to respond to that.

Mr. Ferraro: —that in itself to me is worthy of some discussion. But if you do not want to be specific, that is fine.

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Mr. Hansen: Certainly it is a worthwhile discussion. I am glad you bring up the energy sector as a topic for discussion.

Just to step back for a moment, the point we see is that so much of what goes on—for example, recently in Ontario, the legislation the Minister of Health (Mrs. Caplan) has brought forward is interesting in that the attention it has got in the media has not, to my mind, generated germane understanding.

I would point out to you page 195, article 1402 of the agreement, which specifically states that Canadian and American regulations are not a call to harmonize regulation of industry, private or public; rather, that the applications of standards be equal, in that if you have a Canadian standard, you have to apply it equally to an American investor and a Canadian investor. That means the Canadian standards will be applied in that sense, and I think that is where the issue of protecting Canadian standards has to be recognized. In the broad sense, American money sounds bad, but what is the real impact in terms of regulating and setting standards, where we should be concerned? That is not always brought forward.

Bringing that into the energy sector becomes another major question. We have seen, I think, a good deal of smoke and mirrors.

Just before we get to energy, I can use another example here. Many of the cultural community have come out and said that one of the worst things that happens in this free trade agreement is that the 11 per cent tariff on record production in this country will be gone in 10 years under the free trade agreement. That sounds really bad, and you may disagree with it and find that a terrible occurrence, but you had better go back to 1972 and look at the fact that we signed the General Agreement on Tariffs and Trade, which means it is gone anyway in five years. It is not the free trade agreement that is the big ogre. If you wanted take issue with it, where were you in 1972? That is the question I would put to somebody who raised that.

When we get back to the energy sector, the situation is exactly the same. I think it is important to recognize the fact that independent producers, multinationals and the provinces responsible in many senses, Alberta and the energy-producing provinces, support this agreement. They have jobs to be considered. They want the export opportunities.

You may disagree with them, and you and I as Canadians may disagree on a philosophical approach as to how we handle the export of our resources, but the main thing that comes back to consideration is that opponents and critics of the energy sector talk about the fact that we now have a situation where, if we have to reduce exports, we can only reduce them proportionate in the US to the amount of their market size and proportionate to the amount we have in our own country. That sounds bad, and if you disagree with it in principle, I do not, but I can understand where many Canadians come from on this issue.

Many Canadians who supported the national energy program feel that way and find that a bad advantage. But let's look back and see what the actual ogre is in terms of the free trade deal. Canada signed an agreement in 1973

called the International Energy Accord, which stipulates that we do not reduce our production and supply to the United States proportionately: forget that. If the United States is in a situation of shortage, we have to increase production to meet that and that situation would take precedence over anything that operates under the Canada-US free trade agreement.

So in response to it, I think we have to be very careful to recognize what the other influencing factors here are. Is the free trade the only thing that is on the table in influencing the energy sector?

Mr. Chairman: Mr. Hansen, perhaps in conclusion you could answer this question. Now that Mr. Sterling has brought you and I together, tell us about yourself, tell us a little bit about your own background, and please do not tell me that you are a post-graduate student at Wilfrid Laurier University and a constituent of mine.

Mr. Hansen: Regrettably not, although that would certainly have been a worthwhile achievement.

I am originally from Maple, Ontario, and, by way of interest, I was a page in the Ontario Legislature in 1976.

Interjection.

Mr. Hansen: That is where you have seen me before, yes. I was lot chubbier and shorter at that point, but anyway.

I went to university in Ottawa, at Carleton University. I graduated with an honours bachelor of arts degree in political science and after a few months I found employment with the Peterborough member of Parliament, Mr. Domm, on Parliament Hill. I worked for him for eight months during the capital punishment debate.

Generally, when that was concluding and finishing up was the same time that we—myself and the other people I spoke of earlier in terms of getting this organization started—recognized the concern. We needed somebody to be the full-time employee of the organization, to handle it in a full-time and responsible manner, and it was judged that I would be able to fulfil that responsibility.

We took somewhat of a leap of faith. If you think free trade is a leap of faith, you should try quitting your job and waiting for the funding to show up later, because that is exactly what happened to me when we got this group going.

Mr. Chairman: You left Mr. Domm's office to come to this organization?

Mr. Hansen: Yes I did.

Mr. Chairman: Thank you very much. Your presentation has been very well done.

Mr. Sterling: I am willing to sit through lunch as long as the Liberal members have some more questions.

Mr. Chairman: I have not seen any other question from the Liberal members, Mr. Sterling.

Mr. Sterling: That is my confidence in the answers.

Mr. Chairman: We appreciate the organization coming to be with us today. It begs, I suppose, invitations to other group organizations to present their side of the story as well.

Mr. Mackenzie: I notice one party was significantly left out, Mr. Chairman. They talked of their association with Liberal, Conservative and Social Credit youth groups but not with New Democrats.

Mr. Chairman: Thank you very much for appearing in front of us. I appreciate it very much and the whole committee does. We appreciate Mr. Sterling's facilitating us in his unique manner.

ORGANIZATION

Mr. Chairman: The subcommittee has met and its report is in front of you. The gist of the report is basically that the committee acknowledges—although I think it is not quite clear in the first recommendation—that it is likely going to be impossible to write a report during Thursday-morning sessions for the rest of this session before the summer break.

Even that being the case, the committee is not anxious to sit into the break period—that is, into June and July—but stood on the earlier request that we ask for sitting time in late August and through September. As chairman, I would say that somewhat disappoints me because I do feel there is a certain urgency in this particular debate that is before us and to write a report that late into the debate may mean that the report will have less effect than it otherwise would.

On the other hand, I have to accept the fact that it may be that it is part of the collective thinking of the subcommittee that this is an issue in which party lines are fairly rigidly drawn now. The report may, to some degree, be less significant than your chairman was envisaging it.

Nevertheless, that is the report back to the full committee from the subcommittee. There was some discussion at the subcommittee about the intensity with which we could discuss phase 2 of tax reform in September, it being the case that Ms. Anderson reported to us that the federal finance committee has basically adjourned sine die—if I can use that legal phrase—its discussions of tax reform, phase 2, because it was simply unable to get information and material, apparently, from its own government and other sources.

We are still looking at that, but with that preliminary information—and there is a more comprehensive memo from Ms. Anderson in front of you—the subcommittee felt that some of the time in August and September could be used for writing this report.

You will also note that there is a report from Ms. Anderson on the General Agreement on Tariffs and Trade agenda, and it would look as if the activity there would not be significant enough to bear our attendance until at least September 13. She is still looking at the activities at the headquarters of the European Community and the Organization for Economic Co-operation and Development and will be reporting to us as quickly as possible.

I would like you to direct your attention to the question of our own report. You also have in front of you, I think—and please do not lose these—the compendium that has been prepared by Mr. McLellan of the information in front of us. That will be gold, but, I suppose, as time passes, gold tarnishes.

Mr. Mackenzie: One of the things that makes the subcommittee's report probably the route we have got to go, I guess—although I gather it will not be decided either until the Board of Internal Economy meets Monday—is the question of the outside assessment of the constitutional arguments or the areas that overlap with Ontario's jurisdiction. I take it that that report is still on, pending approval of the budget, and that we will finally know on Monday. Or do we know?

Mr. Chairman: I have been told before that there were meetings at the Board of Internal Economy and, in fact, I was fairly certain there was going to be one this week, although it was not this week. I am now told that I will be allowed to appear in front of them about 4 p.m., or some time thereafter, on Monday afternoon to discuss our new budget.

The argument that I have been getting from committee members as to why they might not consider giving us the money for this is based on the fact that the old budget died on March 31, although our committee underspent its old budget by more than \$95,000. Nevertheless, that is an interesting amount to put in the media because the media always tells how much we are budgeted to spend. In any event, the board will be considering our new budget, which once again includes a budget for Prof. MacPherson, on Monday.

Mr. Mackenzie: With reference to that, I do not want to move any particular motion. I am still of the view that that study—and I do not think the price is out of line—is essential. I think supporters or opponents of free trade will probably agree that to know the areas that may be in conflict between the province and the federal government is probably going to be one of the final strokes in this debate.

The information I get is that the hold-up on approving the budgets has been—I am not trying to be personal here—the government House leader, who has on several occasions cancelled meetings or delayed meetings that had the budget of the various committees on the agenda. I would hope it is set for the beginning of the week. I have asked some serious questions about that. If it is not, I think this committee may have to consider a motion to find out yes or no, you are going to approve it or you are not. I do not know why the hold-up is there but I am told very clearly that that has been the problem.

Mr. Chairman: I do not know what your source is Mr. Mackenzie but I have come to the conclusion that there is a lot of blame on three House leaders, one way or the other. At one point, I would say last fall, I tended to think that perhaps it was the third party's House leader but the third party's House leader sat on our committee for two weeks, worked very diligently and I think understands a lot of our problems now. I can cite instances where all three House leaders have been at fault, so I do not know that we can put the blame on any one person.

Mr. Mackenzie: We do not necessarily have to. I think what might be in order is—

Mr. Chairman: The fact is that they have not considered a request that we made, I think, March 14. They have not had time to consider it yet.

Mr. Morin-Strom: I wonder if the chairman could clarify the suggestion that possibly the problem with the study by Dean MacPherson may be some type of interference by the Attorney General (Mr. Scott), who apparently has also been in contact with Dean MacPherson with regard to doing a study and made the contact with him after our committee had made the initial approaches.

Mr. Chairman: Yes, I am quite pleased to clarify that. I think our committee first contacted Dean MacPherson in February and eventually passed a motion—I think it was March 14; some time in early March—and immediately made a proposal to Dean MacPherson. But we indicated to him that he should await finalizing the proposal until we had clarification from the Board of Internal Economy. I point out that the Attorney General certainly is not on the board. The problem has slunk along from week to week since March 14.

On Thursday of last week—I believe it was Thursday of last week; it certainly had not occurred on Monday of last week when I talked last to Dean MacPherson—he apparently received a proposal from the Attorney General. I got this information from the Attorney General's staff.

I asked the Attorney General to confirm—and he did not know of it on Thursday of last week—that they are asking for a similar but not identical report from Dean MacPherson. I suppose it speaks to our ability to choose a good researcher, but it may be that they have the money and we do not, I do not know. We will find that out Monday.

Mr. Mackenzie: I do not want to continue beating a dead horse, but I am a little bit concerned at that. I hope I do not smell a bit of a rat here on the deal.

Mr. Chairman: That is not a very good phrase to use, as I remember.

Mr. Mackenzie: Let me just make it clear. I think everybody in this committee understands that when we first realized that such a constitutional audit or study would be useful to the committee and was certainly one of the main areas, we asked the Attorney General to let us have an answer as early as possible, or even some of the preparatory work on the audit that he had announced in the House. The chairman will well remember the Attorney General writing back to us and saying, "No, hire your own study if you want."

I have thought subsequently that there was merit in that, because I have no difficulty with the study the Attorney General has done. But it is an in-house study, in effect. I think a separate, independent audit along the same lines could be extremely useful.

We have been having trouble for weeks and months now getting this budget approved to do this study, which I guess almost all of us on the committee agreed should be done. All of a sudden, when we get down to where maybe they are finally going to decide one way or another, we hear that maybe the Attorney General wants to approach him. Forgive me, but I am a little bit concerned by what is happening here.

Mr. Ferraro: I do not want to regurgitate all the arguments—

Mr. Chairman: Incidentally, I have just been told there is going to be a bell ringing for a vote in five minutes.

Mr. Ferraro: Briefly, I did not support the expenditure to do the constitutional study at the point in time the committee discussed it, for a

lot of good reasons. I felt we should at least wait until we had the Attorney General's report. I am still of the mind, quite frankly, that we should at least get an investigation, or the committee should do a study of that report, and then make a determination on whether we want another report.

If we do not feel it is an independent-minded report, if we cannot make up our mind based on the government report already paid for by the taxpayers, if the committee says it is not acceptable, then I think we should consider an independent constitutional audit. But, quite frankly, I think it is premature and a waste of money at this juncture. We have not even looked in depth at the one we have, but you want to spend \$20,000.

Interjection.

Mr. Ferraro: Without a lot of the innuendo being expressed and so forth, I think as a matter of logic and economics, that is the very least this committee should be undertaking.

Mr. Chairman: Would you suggest that we should perhaps have some witnesses come before us?

Mr. Ferraro: Someone from the Attorney General's office, to at least to explain that constitutional audit.

Mr. Chairman: The Attorney General himself or one of his staff.

Mr. Mackenzie: Who could do a better critique than the University of Toronto president himself? We said we would get it to him. Not only could he lay out the study for us, but he could probably, more effectively than we could as a committee, give us a critique of the Attorney General's study.

Mr. Chairman: Yes, I agree with those arguments.

Mr. Ferraro: I do not want to get into a debate, but at the very least, if you want the critique, you should get the critique from both sides, if you will. Get a critique from him but at least get a defence of that report by the Attorney General's office before we make the determination—

Interjection.

Mr. Chairman: Mr. Ferraro has the floor.

Mr. Ferraro: —that it is no good and we need an independent one. Surely, that is democracy in action.

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Mr. Chairman: Is there any more discussion on that particular area?

Please rest assured that I will be attending in front of the board, whenever it allows me to, and I will be arguing on the principle, if nothing else, that the committees should be permitted to do some independent research of their own for that continued inclusion in our budget, and it is in our budget at the present time.

We need to look at and make a final decision, if we will, on the three recommendations from the subcommittee.

Mr. Mackenzie: I will so move.

Mr. Chairman: That is 1, 2 and 3, or 1?

Mr. Mackenzie: All three.

Mr. Chairman: Mr. Mackenzie moves the adoption of the subcommittee's recommendations 1, 2 and 3. Any discussion?

Mr. Ferraro: Am I out of order to recommend that we have a delegation from the Attorney General's office to try to explain and/or answer some of our questions about the constitutional audit?

Mr. Chairman: I think it is an excellent proposal, if we are not going to write until September, although it suggests here that we are going to start writing right away.

Mr. Ferraro: It is for that matter—

Mr. Chairman: There are other areas, frankly. There is another area that I wish to raise with the committee that we may not have covered very well also, with regard to a witness. It sounds to me as if it is the wish of the committee to hear as much information as it can.

Mr. Ferraro: My concern, and my reason for bringing it up now, is that, for example, point 2 tells the researcher to prepare a draft report. It would appear to me that some reference to the constitutional audit would have a bearing on the writing of that report. I do not know whether you want me to make a motion and add it into this or to wait until we deal with this and then have a separate motion.

Mr. Mackenzie: I do not think she should stop starting to prepare it. At some stage, she is certainly going to have to add that to it, but there is a fair amount of work to draft a report.

Mr. Chairman: Perhaps we can pass this motion, if you wish. My one last reminder to those members who were on this committee before the election is that we once put off a report on corporate concentration and never really gave the Legislature a great deal of information, but that may be a different scenario from the one we are in now.

Any further discussion on the motion re the report of the subcommittee in total?

Motion agreed to.

Mr. Chairman: Mr. Ferraro moves that an appropriate time be set aside, as soon as possible, for a representation from the Attorney General's office to explain and/or answer any of our concerns vis-à-vis the constitutional audit that was released to the House.

Mr. Ferraro: The subcommittee may want to determine that date.

Mr. Morin-Strom: How many weeks do we have left? How many meetings? Two? I think we have only two meetings left this month.

Clerk of the Committee: You have next week and, with the motion, a request for June 27.

Mr. Morin-Strom: And then the following Wednesday, if we get permission. It would seem to me that the priority at this point, based on the subcommittee meeting we had as well, is that we have to get the proper direction to the researcher in terms of the overall direction of the report. We agreed that, as a subcommittee, we would not address actual recommendations until we came back in September or whenever we get our next full week, when we get to the content of the thing.

I think this is rather critical to some of the recommendations in terms of what Ontario can or cannot do. It might be wiser to wait until we are getting ready to write the recommendations and kind of leave that as a blank issue for now so that it will be fresher in our minds when we get to that, we have a concentrated period, and hopefully we will have the study from Dean MacPherson, at which time we can get both assessments, one after another, and look at them in detail.

I would just suggest that the priority for the next week at least, I think, has to be giving the researcher some direction. I am afraid that we have such limited time, taking one of these next two sessions for this subject may not be the wisest course.

Mr. Ferraro: I appreciate what you are saying. My only concern is that many members of this committee, I say with great respect, have made up or appear to have made up their minds vis-à-vis the Attorney General's report and have indicated—members of my party as well—that they want to spend \$15,000 to \$20,000 on essentially another constitutional audit. All I am saying is that the argument can be made, and I am trying to make it, that we have not technically said to the AG's report—the one we have already paid for, if you consider us being the taxpayers—that it is a rotten report or that it is not satisfactory and we need another.

Interjections.

Mr. Ferraro: All I am saying is that we have prejudged it and are going to spend \$20,000 on a report that may not be necessary.

Mr. Morin-Strom: I do not think we have prejudged it at all. I have not prejudged it. I have not looked at the—

Mr. Ferraro: Why spend another \$20,000?

Mr. Chairman: I think it is \$16,000.

Mr. Morin-Strom: There is the reflection of the reality that the report came out from the Ontario government, and there is a question of the political perspective that goes into that report and the arguments that are being brought forward. The desire is to have an independent expert in the field look at the legal arguments which have been put forward by the Attorney General and the Ontario government versus the legal arguments that are being put forward by the federal government and its legal assessments and other studies which we know have been made by legal experts, which have been testified about at various conferences; to get someone who can look at these all independently and give us an assessment of the various arguments and what they mean in layman's language. I think we need it regardless.

Mr. Chairman: I am going to have to draw this debate to a close. I do not think I am hearing any new argument.

The motion by Mr. Ferraro is that we have the appropriate representative of the AG explain the constitutional audit before the committee, and I presume that is sooner rather than later.

Mr. Ferraro: Yes.

Mr. Chairman: Ready to vote? All in favour? Opposed? Carried.

Motion agreed to.

Mr. Chairman: In the same context, and Mr. Morin-Strom may or may not be happy with this, there is a gentleman who is a massive tome of information, Mel Clark, who was a negotiator at the Toyko round of the General Agreement on Tariffs and Trade for Canada. He is in semi-retirement now. I met him three years ago and he has been a great source of information to me ever since that time, and I have often asked him to come before our committee.

He worked closely with Simon Reisman at that time. Frankly, his view now is that this agreement is not a good one. He has always demurred on my request that he appear before the committee because of, I take it, some contractual obligations he had. He suddenly phoned me a couple of days ago and indicated that he was prepared to come before the committee. He is particularly concerned about our understanding of the potential water obligations of the agreement.

I see him as a valuable source of understanding of the GATT negotiations somewhere down the line. It may be that that too is something we could utilize his good brain for. Some members of the committee may recall, I think it was in August 1986 when the former committee was in Ottawa, that some of us had dinner with him. I do not recall exactly who, but I remember Mr. McFadden, the former member for Eglinton, and I think there were members of both the Liberal and Conservative parties there. I have not heard a better explanation and understanding, for instance, of national treatment from any witness than I have had privately from Mr. Clark.

Unfortunately, his phone call came, as I explained to him, at a very awkward time in our deliberations, but it being the case that we have taken the pressure off ourselves with regard to the timing of writing a report, I am just wondering if the committee would wish to hear from him.

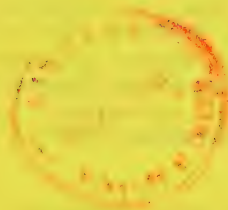
Mr. Mackenzie: I think, Mr. Chairman, the same argument holds that my colleague Karl made on the other case, but inasmuch as that is now the position we are taking, that we have an assessment at some stage, I think the same thing applies here if you think—I am willing to take your word for it—there is some value in hearing it. Certainly the water issue has not had the coverage it could have had and does concern a lot of people.

Mr. Chairman: All of this must be very frustrating to Mr. McLellan, who has spent many weeks preparing the material you have, but that is politics.

The committee adjourned at 12 noon.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, JUNE 16, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

Witnesses:

Individual Presentation:

Clark, Mel G., Retired Deputy Head, Canadian Delegation to the General
Agreement on Tariffs and Trade, Tokyo Round

From the Rawson Academy of Aquatic Science:

Gamble, Donald J., Executive Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, June 16, 1988

The committee met at 10:03 a.m. in room 151.

FREE TRADE REVIEW
(continued)

Mr. Chairman: Perhaps we can get started. I see a quorum. I have a couple of things I want to say. I would think it would perhaps be appropriate if we do any housekeeping, we do it at the end of today's proceedings, but I would indicate there are some concerns that I have and you might want to think about them.

The Board of Internal Economy met on Thursday. It approved all of our budget with the exception of Professor McPherson. That means they approved our budget to attend at the General Agreement on Tariffs and Trade in Geneva, the Organization for Economic Co-operation and Development and the European Community. I was informed by my own whip yesterday that the proposal today of the House leaders is for us to meet on the first and third week of August and to be denied the request to meet for four weeks; rather, we would be given two weeks. The expectation was that we would be travelling in those weeks. I pointed out that there is nothing happening at the GATT in August. I leave that with you and I would prefer that we not raise it other than that you have it to think about at the moment.

We have two very special guests with us today and I am pleased to have them. As I indicated last week, I met Mr. Clark in 1985, as I recall, and have had fairly regular communication with him since that time. He has been an incredible source of information to me and I am sure he is to a lot of other people in this country as well. I do not have his curriculum vitae in front of me, but he is renowned as a negotiator. He was principal negotiator on our behalf at the General Agreement on Tariffs and Trade, Tokyo round. He almost became a Swiss citizen, I suppose, you spent so much time over there—is that fair to say—and so has an incredible grasp of trade issues.

It was Mr. Clark who alerted me, I recall, to the comments in the Prime Minister's televised speech in June 1986 when he used the words "national treatment" in a very normal way and many people, I am sure, did not take any particular significance from that until he brought that to my attention and I think to other members of the committee, the former economic committee, the select committee on economic affairs.

I have often asked Mr. Clark to appear before this committee and he has always declined until very recently and I appreciated the reversal of that decision. You may have read articles that he wrote recently, along with Mr. Gamble, about the concern that he has on water in the free trade agreement. Mr. Gamble is the executive director of the Rawson Academy of Aquatic Science and has a number of concerns as well.

I have invited them to come to address us today. They do not have a prepared text, but they will perhaps give an opening statement and then entertain questions. Then, if we do it that way for maybe an hour or a little less, you may wish to revert to discussion of the process of the General Agreement of Tariffs and Trade. If we do get to be following what they are

doing more closely, either by travelling overseas or by inviting more witnesses of that nature to the committee, I think you would benefit from listening to some discussion from Mr. Clark on that issue as well.

Mr. Clark and Mr. Gamble, whoever wishes to start first.

Mr. Clark: I will just modify one of your introductory remarks. I was the deputy head of the Canadian delegation at the Tokyo round and not the head.

Water. It is I think universally agreed, certainly widely agreed that water is Canada's most important natural resource, or as the Pearce Inquiry on Federal Water Policy put it, our "most valuable liquid asset." The federal government has stated that water is not part of the free trade agreement. A review of the free trade agreement, however, reveals that water is part of it. I will summarize the evidence to sustain that fact and then Don Gamble will go on and raise and comment on some of the questions that arise from it.

First, what has the government said? The government tabled its water policy in the House of Commons last November. That water policy states that the government will take all possible measures within the limits of its constitutional authority to prohibit the export of Canadian water by interbasin decisions and strengthen federal legislation to the extent necessary to fully implement the policy.

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Later the same day, the Minister of the Environment, in response to a question in the House of Commons, said: "The subject of water has never been negotiated in the free trade talks. The subject of water is not part of the free trade agreement, nor will it be." He explained that we need the water for our own purposes and that interbasin diversions would be devastating to the environment and to Canadian society.

Then in February of this year, the then Minister of International Trade, Miss Carney, met with a group at a public meeting in Vancouver. She repeated these statements that water was not in the agreement. The members of the group questioned her on it and Miss Carney terminated the discussion by refusing to discuss the matter further, flatly denied that water was included under the FTA and dismissed the group as troublemakers who were trying to scare the Canadian public. This occurred a month to six weeks after the text of the agreement was tabled. The text of the agreement was tabled in early January.

Now, more recently, there have been questions asked in the House of Commons on this matter. On May 18, the current Minister of International Trade, Mr. Crosbie, stated that water "is not even the subject of a provision of the US-Canada free trade agreement." On May 24, the parliamentary secretary for international trade, Mr. McDermid, in effect repeated what Mr. Crosbie said. "The short answer to that question is because it is not part of the trade deal." Then he went on to say that, "The only exception...I believe, was non tariffs on bottled water, such as Perrier."

Then on June 13, Mr. McDermid answered another question or received another question and the response he gave was this: "There is nothing in the free trade agreement that obliges Canada to sell water to the United States. There is nothing in the free trade agreement that obligates Canada-approved projects for the diversion of Canadian water for export. As a matter of fact, I might point out that in the free trade agreement there is mention made for

tariff purposes of mineral water. I might add, by the way, that in standard GATT practice there are no greater obligations in the free trade agreement than those which have existed under the GATT for the last 40 years."

What we have there is a combination of outright denials that water is in the agreement, to an assertion that only bottled water is in the agreement and finally to the assertion that we have not undertaken any obligations that we have not had for the last 40 years under GATT.

Now let's examine the facts. The first fact is that water is not explicitly excluded from the agreement. I suggest that if we take the government's policy tabled last November in the House of Commons, plus Mr. McMillan's categorical statement that water was not in the agreement nor would it be, plus the fact that it is our most important natural resource, that it would have been logical and prudent to include in the agreement an explicit exclusion of at least interbasin transfer of water, or exclude all water except Perrier. That obviously was not done, even though a number of other products and goods are excluded from the agreement in one way or another. The Americans excluded shipping, for example, simply by not including it in the list of services covered by the agreement. Both of us have excluded logs explicitly and there are other examples.

Secondly, the text of the agreement refers repeatedly to goods. The text also states that a good is defined as it is understood in the General Agreement on Tariffs and Trade. For years water has been bound in various countries' schedules annexed to the GATT. More recently, the harmonized system, developed by the Customs Co-operation Council in Brussels, but adopted by the GATT, includes a tariff item for water. I think it is beyond reasonable doubt that the GATT would understand water as a good. Perhaps more important is tariff item 22.01 in both the American and Canadian schedules for the GATT. This tariff item—

Interjection: To the GATT or the agreement?

Mr. Clark: To the bilateral agreement. This tariff item is identical to the item in the harmonized system. It reads, "waters, including natural or artificial mineral waters and aerated waters not containing added sugar or other sweetening matter nor flavored; ice and snow." Now, you note that the only diminishing words in there, excluding words, are applied to water containing sugar or sweetening matter or flavour. There is no exclusion of interbasin transfer waters. There is no exclusion of water shipped by tanker. It obviously covers mineral waters, bottled waters, but it covers all other waters.

Now a further piece of evidence on that is that when the people who developed the harmonized system developed the system they also developed a number of explanatory notes. There are four volumes of these explanatory notes for the whole system. There is an explanatory note for tariff item 22.01 and that explanatory note says that: "This heading covers ordinary, natural water of all kinds. Such water remains in this heading whether or not clarified or purified." Therefore, I have come to the conclusion that all water is in the bilateral agreement. I think that is a fact. It is not even arguable.

Let me deal with Mr. McDermid's last point, the point he made in his last question, to the effect that the obligations we have undertaken in the bilateral agreement relating exports are no greater than what we have had in the GATT for 40 years. Well, let's start with national treatment. Under the GATT, national treatment is limited to domestic taxes and regulations relating

to imports. The GATT article on national treatment does not apply to exports. The national treatment provision in the bilateral agreement, applies to both imports and exports. There are no limiting features, no limiting aspects to it, except as are provided in the agreement itself. Therefore, the national treatment obligation Canada has undertaken in the bilateral agreement is very, very substantially greater than our national treatment obligations under the GATT. First point.

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Second point: Export taxes. Under the GATT, we have a right to apply an export tax at any level, including a prohibitive level, for any purpose: environmental purposes, embargo exports, you name it, any purpose, provided we apply it on a most-favoured nation basis. That is the only condition. That is a very, very wide-reaching right that we have. We have not used it very often, but the fact that it has been there has helped to deter or deflect, I am sure, various schemes relating to our resources.

The bilateral agreement takes that right away. The bilateral agreement says, in effect, that neither country can apply export taxes unless it levies them at the same level on the domestic population which, in effect, nullifies the use of export taxes. That is a very, very substantial right for the United States and a very substantial obligation on Canada.

Another example of where we have undertaken a much more onerous obligation under the bilateral agreement than we have under the GATT relates to minimum prices. Article 407, paragraph 2 of the agreement—and there is a mirror article under the energy section—says that Canada will not set minimum export prices. It says they choose to interpret the GATT obligation that we would not set minimum export prices and they write it into the agreement.

Well, Mr. Chairman, I have worked in GATT matters since 1956. In the Tokyo round, I was the Canadian representative at an informal committee that reviewed the GATT from article 1 to the end for the purpose of identifying the rights and obligations of countries relating to exports of commodities out of a country. The jargon used in the GATT, which was quite accurate, was "access to resources." This work was stimulated primarily by the Organization of Petroleum Exporting Countries and oil crises.

The United States, the European Community and Japan went into that committee, of course, with the idea of trying to identify and expand every possible area that would give them rights to other country's resources. Canada was the main spokesman for the resource-possessing and resource-exporting countries.

The committee was chaired by the deputy director general of the GATT and he was supported by the GATT secretariat which, you will learn when you visit Geneva this autumn, is a very competent secretariat. Not once was it mentioned when we went through all these articles that we had an obligation to not set minimum prices. I do not know where they got that from.

Another consideration is that we have had minimum prices on various products over the years. Ontario Hydro I understand sets minimum prices on some of its exports of power, and I understand other provinces have done it. In effect, we use an export tax to establish a minimum price for export of oil.

The United States has never challenged in the GATT any of the minimum prices that Canada or Canadian provinces have imposed. There again is a very

substantial, additional obligation on Canada, an obligation which I do not think exists in the GATT but which exists and is in the bilateral agreement.

Then, Mr. Chairman, there are a number of other obligations. I will just briefly refer to them. Article 409 in the agreement is headed, "Other Export Measures." If you go through that article and compare it to the GATT provisions that are mentioned in the preamble, you will find that article 409 substantially increases the obligations that Canada has under the GATT.

Mr. McDermid's statement is simply not correct. This agreement gives the United States substantially greater rights and imposes substantially greater obligations on Canada regarding the control and export of Canada's resources than we have under the GATT.

What do I conclude from this? That all water, including water shipped by tankers and water shipped or diverted through interbasin transfers, is under the free trade agreement. I will just mention briefly two important implications that flow from this fact, and then Don Gamble will raise a number of questions that also flow from it.

The first implication is that the free trade area would override the federal government's water policy in the event the policy conflicts with it. The second implication is that the free trade area would override federal and provincial laws and regulations in the event of a conflict. For example, what do the free trade agreement provisions relating to national treatment, the rights of establishment and foreign investment mean when applied to federal and provincial policies, laws and regulations relating to water? Don.

Mr. Gamble: Thank you, Mel. Mr. Clark has explained the details of the free trade agreement as it applies to water, and I think has demonstrated that water is included.

You have before you a photocopy of an article which appeared in the Toronto Star that Mr. Clark and I wrote. You will notice at the end of that article that we raise six questions that we think have to be answered now before we can safely proceed and have some assurance that the water resources in Canada are protected in a way that we would expect they would be. Let me just run quickly through those.

The first question is the most obvious one: Given the federal water policy and given the feelings of Canadians that were expressed to Dr. Peter Pearce during the Inquiry on Federal Water Policy, why was water not explicitly excluded from the agreement? And corollary to that question is: Did the United States press for the inclusion of these waters and, if so, what were the reasons and why did Canada agree? That is the first series of questions that really need to be addressed.

The second point is that it is necessary to examine whether the free trade agreement provisions infringe on federal and provincial policies relating to interbasin transfers of water. Now, this is a very difficult assessment. I do not mean to minimize it. But somebody should have done this and, if the government has made such an examination, why has that examination not been made public?

The third question relates to the legislation that bears on water use. The Pearce inquiry noted that the federal government has enacted a good deal of legislation that bears one way or another on water use. We have to then ask: Does the free trade agreement impinge on this legislation and, if so,

does it require its amendment? We certainly see many areas requiring amendments, and this is one that has not been addressed at all.

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The Pearse inquiry also identified nine international treaties and agreements that Canada has with the United States relating to waterways that either cross or delineate our borders. They include the Boundary Waters Treaty of 1909 which, you may be aware, set up the International Joint Commission, which is particularly relevant to Ontario, given its role in the Great Lakes. The International Joint Commission sets basic principles and dispute resolution mechanisms on its own for boundary waters between the two countries. The obvious question is: Does free trade affect these international agreements and, if so, how?

The fourth question again goes back to the Pearse inquiry. Dr. Pearse, after doing the legal assessment of water law in Canada, noted that "under any interpretation of Canada's Constitution, the provinces have wide jurisdiction over water." The obvious question that has to be answered, which has not even been addressed by the government apparently, is: Does the free trade agreement change provincial jurisdiction over their waters and, if so, how?

The fifth question that needs answering relates to the caveat that was put in Mr. McMillan's statement on federal water policy. He said that the federal government would do everything "within the limits of its constitutional authority to prohibit the export of Canadian water by interbasin diversions." If we take that statement at face value, we have to ask ourselves: Would not the free trade agreement make it possible for a province to negotiate an agreement with the United States or with a certain state in the United States to export interbasin water?

Finally, the last question we think needs to be addressed has to do with national treatment that Mr. Clark mentioned earlier. The government did not achieve, in the first phase of the negotiations, the prime objective to secure access by obtaining national treatment regarding the application of United States nontariff measures, especially countervailing and dumping duties.

Before being appointed chief negotiator, Simon Reisman suggested in a written article, which I will file with you in a moment, that obtaining full national treatment for Canadian goods, services and enterprises would require Canada to export water to the United States. The question then to be asked is: Will concessions regarding the export of water be made during the next phase of the negotiations?

These kinds of questions are vital to our understanding of the free trade agreement as it affects water and the future regulation and management of water in Canada. As the Pearse inquiry pointed out, this is of primary concern to provinces. Given the International Joint Commission and the Great Lakes, it is especially important to Ontario.

Let me bring it home even closer to something much more specific than that. I use this as an example to bring home the real issues that we are dealing with here. This is not simply an intellectual clarification exercise.

The example I would like to use is the GRAND Canal scheme. This is a project which has been proposed. It is a Canadian proposal to dam off James Bay, to turn it into a freshwater lake and to divert that fresh water back, through a series of channels or canals, into the Great Lakes, into the midwest

as far as Lake Diefenbaker in Canada and down into the southwestern United States. Initially, when this project was proposed, many people thought it was almost humorous. It just sounds too grand, grandiose.

Let us take a closer look at this, and I am going to tie it directly to some of the things in the free trade agreement. First of all, this project is sponsored by Canada's leading engineering firms. These are serious companies: Underwood McLellan Ltd., the UMA Group; the SNC Group in Montreal; Rousseau, Sauvé, Warren Inc., which is a large Canadian and international firm; Bechtel Canada Ltd., which is a Canadian part of the Bechtel Group Inc., which is the largest engineering firm in the world. It has also contractually involved Atomic Energy of Canada Ltd., and according to the president of GRAND Canal, Lavalin, which is Canada's largest engineering firm, is courting the consortium and wishing to join as well. These are serious companies. They do not undertake foolish enterprises.

This project has been backed by Premier Bourassa in his book *Power from the North*. It was advocated by Mr. Reisman as the way in which Canada could obtain national treatment. Mr. Reisman was directly involved in this project and wrote an article in *Canadian Business Review*, which I brought a copy of for the committee that I will leave with the clerk.

The *Canadian Business Review* published an article in the autumn of 1985 entitled: "Canada-United States Trade at the Crossroads: Options for Growth." The subtitle of this is: "A comprehensive Canada-United States free trade agreement would be good for Canada, and Canadian water could be used to negotiate the deal." In this article, he talks about the GRAND Canal scheme and advocates the scheme.

The Prime Minister, speaking in an interview in *Fortune* magazine in 1985, also suggested that export of water was something that Canada would consider. The federal water policy, we thought, had changed this, but that does not seem to be the case, given the description that Mel Clark has given to you about the free trade agreement.

Let me bring you up to date even more than this to the current status of this project. The GRAND Canal scheme certainly is shaky in a number of ways. Many people have criticised it on economic grounds and on environmental grounds. But there are three things that I would like to show you to indicate this project is not obscure.

First of all, the head of Bechtel Canada Ltd., Mr. Harmer, is in communication with the corporate assistant deputy minister of Environment Canada, urging Environment Canada to change the federal water policy to allow interbasin transfers.

Second, on June 2 of this year, at the conference in Ottawa of the International Water Resources Association—that association holds a conference once every three years and it was in Canada this year—Mr. Kierans, a Canadian engineer who is president of the GRAND Canal company, said two things in updating people about his project and describing it to that group in a panel discussion of which I was one member.

First of all, he said that he had recently come back from the United States. He was there in May. He had had discussions with the United States Army Corps of Engineers. The US Army Corps of Engineers has urged him to proceed with an application and has said, according to Mr. Kierans, that it would assist him in making that application.

Second, at that conference Mr. Kierans showed a letter from Mr. Crosbie, which was a response to one of his letters to Mr. Crosbie. In that letter, Mr. Crosbie said that he would approach Mr. McMillan to try to straighten out some of the difficulties arising from the federal water policy with respect to this project.

I am saying these things because we cannot dismiss that easily. Water, as many of you are aware, very much aware—and particularly if you go west from here, people have become more aware and politicians are more aware—is a critical resource. Forecasts for the 1990s suggest that water is going to be our most valuable resource. People from other places have described Canada as the future OPEC of water. We should not dismiss this lightly. We should plan our future extremely carefully, and when we enter into agreements that affect that resource, we should be careful to understand them fully.

In 1985, Peter Pearce tabled in Ottawa his report entitled Currents of Change, the final report of the Inquiry on Federal Water Policy. There is an entire chapter in this report dealing with water exports. I refer that to you and I leave it with the clerk.

He urged an extremely cautious approach. He asked that if the government would entertain exports of water, it do this in the most methodical, rational way possible. He referred to a background study that was done for him on water exports. It was a joint study that was done between both the Pearce inquiry and the Macdonald commission. I leave this copy with you. It is called Canada's Resource Industries and Water Export Policy, in which Dr. Tony Scott, an economist at the University of British Columbia, sets out a way in which Canada could methodically approach this issue if it chooses to open the door to exports. That has not been done.

The federal water policy that Mr. Clark referred to was released in November 1987. It was responding to a growing public concern about the exports of water. It was, and I compliment the federal government for this, the clearest-ever statement on federal water policy. It was built with respect to the issues we are talking about here today around three main points—pricing, interbasin transfer and the Canada-US boundary waters issues.

I will leave with you a copy of the speech I gave in May to the British Columbia branch of the Canadian Bar Association which goes into these issues in more detail and sets the context within which the free trade agreement can be viewed from a federal water policy point of view and from the Pearce inquiry point of view.

Given all these things, we have to ask ourselves why it is that people are so reluctant to, first of all, admit what is obvious—that we have included water in the free trade agreement. Then we have to move on from there and do a systematic and careful examination so that all of us can be sure that in the decades ahead, when we know water will be important to Canadians, that we are in the best possible position to make sure the future of every region of Canada is well served by this agreement.

If I could, I would like to just leave a couple of other documents with your clerk in a way of substantiating our organization. I have here a corporate profile of what the Rawsom Academy is. Briefly, we are a nonprofit, charitable association of scientists and aquatic resource specialists from across Canada. There are currently 51 fellows of the academy.

I am tabling with you a book we publish called Canadian Aquatic

Resources, which is published jointly with the Department of Fisheries and Oceans. There are about nine chapters in this book that deal with the kinds of issues that arise from what we have talked about here today.

I am leaving with you the proceedings of a symposium on interbasin transfer of water. This was held in Saskatoon, Saskatchewan in November 1987. There were about six chapters in this book that outline the problems associated with interbasin transfer. There is a very comprehensive description of the kinds of issues that the GRAND Canal scheme and similar schemes raise for Canadians as well as Americans.

I am leaving with you, just for your convenience, the federal water policy and the press release that went with it when Mr. McMillan announced that policy, in which the first three paragraphs all deal with Canada's adamant opposition to water exports.

I am leaving with you an issue of Northern Perspectives, which I understand some of the members here already have, which has a detailed description of the GRAND Canal scheme.

Finally, I have here the Science Council of Canada's report, Water 2020. This was released two weeks ago in Ottawa after a two-year study by the Science Council of Canada on the future of Canada's water resources.

Water exports are dealt with peripherally here, but this provides a context within which we can understand the vital nature of this resource. I leave all those with you. Thank you very much.

Mr. Chairman: Those were two very comprehensive presentations. I have a lot of people who want to ask questions, Mr. Haggerty, Mr. Morin-Strom, Mr. Pelissero and Mr. Mackenzie.

Mr. Haggerty: Gentlemen, I appreciate your comments this morning, and you have really struck a nerve, you might say, particularly with myself and I am sure with of other committee members here. Listening to some of your comments this morning and the contents of the trade bill itself and the interpretations now that are coming forward, this might be considered one of the greatest Canadian fraud schemes ever perpetrated here in Canada by a government.

I was interested in your comments from Northern Perspectives—I received it in my office on December 4, 1987. I do not know whether any members have seen that or read that document. In it, was an article prepared and written by Mr. Gamble.

You did touch on some comments there concerning the water study that was being carried out by McMillan. In your article you said that "McMillan maintains that the large-scale water 'export' would only be considered in the context of a comprehensive federal water policy, which is now being developed." Has that study been completed?

Mr. Gamble: Yes.

Mr. Haggerty: Is that the document you have there?

Mr. Gamble: Yes. This article was written just before the federal water policy was released and that was a statement made at the time. The federal water policy since has said that they would not export water and they

would do everything within their constitutional power to prevent that. So that supersedes the comment that he made at the time.

Mr. Haggerty: That supersedes it, but then it comes back—of course now we have the final context of the free trade agreement that now includes water in it. It seems they have taken two positions on this. Am I correct on that?

Mr. Gamble: That is right. This is the thing that I—

Mr. Haggerty: They were opposed to it and now they are for it.

Mr. Gamble: They came out with this in November 1987. Six weeks later they came out with a bilateral agreement which does include water, and our best assessment would be that it overrides the federal water policy. No unilateral statement by either government will supersede the bilateral agreement. Since water is included in the bilateral agreement, it would appear to raise questions about the statements made in the federal water policy.

Mr. Haggerty: One of them is misleading then, perhaps.

Then you go on to say further there that Quebec and Ontario—well, I will quote it:

"Furthermore, in 1985 the governors of the Great Lakes states and the premiers of Ontario and Quebec signed an agreement to guard against 'transfers' or 'diversions' to the Midwest and Southwest." So apparently we have had an agreement between the two provinces along with, I suppose, the 13 states that border the Great Lakes basin with the governors and so on. That agreement, you might say, is put aside with these two agreements now, the final free trade agreement. In other words, the agreement they signed there on water policy would not hold water.

Mr. Gamble: The difficulty is this: The first thing that has to happen is that there has to be an acceptance by the government that what they have done is in fact include water. As long as they keep denying that, we cannot get at some of these issues.

A comprehensive assessment of any kind of an agreement such as the free trade agreement would require, one would expect, careful assessment of the very kinds of things you are talking about. We just do not know. We know that it overrides certain provincial kinds of interests, and you have seen that in other areas, which I am not expert in.

All I can say is that it raises serious questions about the kind of agreement in the Great Lakes basin that you have cited here. It raises questions about the federal water policy. It raises all kinds of questions, even those related to the international joint commission, its dispute resolution mechanisms. But nobody has done that work yet.

I would have expected that this is the kind of homework that would have been done in the normal course of any kind of rigorous analysis as part of the negotiations. We are unable to get hold of any of that and, to the best of our knowledge, it has not been done. So the quick answer to your question is, it very well could override the kind of agreement that you cited there, but nobody knows for sure.

Mr. Morin-Strom: Certainly, I think all of us here in the

Legislature have serious concerns about the implications of this agreement on our control of our jurisdiction as a provincial government and one of the most serious areas is the area of resources. I do not think anyone, as you say, thinks that any other resource is more valuable than the freshwater resource we have in our country.

I would like to look back at an article that was written by Canada's chief trade negotiator, Simon Reisman, and published in Canadian Business Review in the autumn issue, 1985. It is essentially Simon Reisman's last statement before being named negotiator. He was named Canada's chief negotiator virtually simultaneously with the publication of this article in the fall of 1985. The title of this article, which is quite an in-depth article, is called the Canada-United States Trade at the Crossroads: Options for Growth.

Mr. Chairman: I think that may be the same article that Mr. Gamble has already referred to.

Mr. Gamble: That is the one I was referring to.

Mr. Morin-Strom: The concerns here would be that based on what you are saying and the evidence in terms of the actual wording of the agreement, Simon Reisman has achieved his negotiating objective and that was stated in the subtitle: "A comprehensive Canada-United States free trade agreement would be good for Canada, and Canadian water could be used to negotiate a deal."

This article goes into considerable detail on the GRAND Canal project and the potential for diverting a major portion of our water resources in northern Ontario, as well as northern Quebec into the United States, and suggests that a comprehensive free trade agreement between the two countries would give Canadians access to the US market, but that Canada must negotiate conditions to make the trade agreement vital to the United States. The author, Simon Reisman, in other words, proposes that the United States be offered access to Canadian water by converting James Bay from a salt-water body to a freshwater lake by building a sea level dike across the mouth of the bay.

In your view does this agreement open the door for this kind of a project being proceeded with at some time in the future by the Canadian government in consultation with the Americans?

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Mr. Clark: It very well could. As Don explained, we do not know the implications of water being in the agreement. In order to begin to understand those implications, you would have to put together a group of people who understand water and understand trade agreements, understand provincial and federal laws and regulations. They would have to go through this agreement item-by-item and identify every provision that could impinge upon federal and provincial laws and regulations relating to water. Then they would have to sit down and make some very difficult assessments because some of the most far-reaching provisions in this agreement, and agreements under which we take very onerous obligations, are not all that clear, such as the national treatment one.

Until that work is moved along some distance, it is very difficult to answer your specific question, but I am from Saskatchewan on this one. Here is a government that has our most important natural resource, first. Second, it tabled, with considerable publicity, a water policy in November last year,

which said no exports. The minister gets up in the House of Commons and categorically stated no exports. The Minister of Trade in February said it was not in the agreement, but nevertheless, it is in the agreement. It is not in the agreement by accident. It is there for a purpose. In other words, what the government has tried to do here, is try to finesse the inclusion of water in the trade agreement, it is trying to finesse it past the Canadian people.

I find it rather disconcerting to think that a government would include in a trade agreement that places on Canadians very onerous obligations relating to the supply of goods and resources, put in that agreement our most valuable natural resource without telling us, and without having a national, public discussion of some depth and some length, but the fact we are faced with, that is what they have done and they are still denying it.

Mr. Gamble: If I could just add one thing, the easiest way this could have been dealt with would have been through an explicit exclusion of water. That would have been consistent with the federal water policy, it would have been consistent with the kinds of things that were heard during the Pearse inquiry when it went right across Canada soliciting views from provincial governments, from Canadian citizens and interest groups. That did not happen. There is a number of rumours around of why that is or what happened there. Those cannot be really substantiated. The one suggestion that has been made by some people, some very reliable sources, is that there was an explicit exclusion at one point and it was dropped at the last minute at the request of the United States. I cannot really substantiate that in any written form. All I can say is that statement has been made by a number of people who should know that kind of thing.

So the easiest way to have had consistent policy here would have been through an explicit exclusion. That did not happen. By not explicitly excluding it, we open ourselves in a way that we just do not know, and the kind of problem that you have described is one of them.

Mr. Clark: Could I just add a footnote to what Don has said about the exclusion to clear up some rumours floating around. When Miss Carney met this group in Vancouver in February, with her was Chris Thomas, who is now a lawyer; I guess a professor at the university's law school. But until the end of 1987, he was Miss Carney's chief of staff, so he knew a lot about what was discussed in camera about what would be in and out of the trade agreement.

This letter, which was sent to all members of Parliament and senators, it was public, says this: "When this matter was brought to the attention of Chris Thomas, Vancouver lawyer and trade adviser to Pat Carney, Mr. Thomas contended that the text of the free trade agreement explicitly exempted water exports. When we asked him to indicate where this exemption was contained in the text of the document, he reviewed the agreement and confessed, somewhat sheepishly, that it was not there."

"We discussed it. It should have been in there. I thought it was there," was his reply."

Interjection: He had the wrong version.

Mr. Gamble: If I could add one other thing, this would explain in part Mr. McMillan's statement in the House: It seems that a number of people who should know were under the impression it was excluded. Even the American ambassador to Canada, in a television program, Question Period, stated that it was excluded. It was not included. These are sort of very categorical

statements. That is why we are so shocked—puzzled, in a way, I guess is a better word—when it is included. It does give some credibility to the statements that we hear around Ottawa that at the last minute that exclusion was taken out unilaterally by some individual.

Mr. Chairman: Do you think that in response to that some time in early October there was a decision perhaps to bring forth a statement of the water policy as a result of certain debate that may have gone on in federal cabinet?

Mr. Gamble: Yes.

Mr. Clark: That is one way of looking at it. There is another possible scenario here which acquires some credence when you examine the track record of the Mulroney government; that is Mr. McMillan's water policy in his statement in the House of Commons—by the way, the question he answered in the House of Commons was a staged question asked by another Conservative MP in very pejorative terms like "stupid Liberals think that water is included in this agreement."—could have been done deliberately to distract attention from what they were doing in the agreement.

Mr. Gamble: I do not believe that personally. I try not to get into that frame of mind.

Mr. Chairman: We do not know anything about staged questions.

Mr. Clark: I did not say I believed it. I said it was a possible scenario.

Mr. Chairman: They do that in Ottawa.

Mr. Morin-Strom: Do I get a supplementary to my own question?

Mr. Chairman: Yes.

Mr. Morin-Strom: Fortunately, in terms of the Ontario government, I think we have a fairly clear position that has been supported by all three parties because this issue became an issue during the trade negotiations. In fact, a resolution was addressed by the House here about two years ago during the last parliament. At that time, a resolution was passed overwhelmingly here in Ontario, which states as follows: "That in the opinion of this House, recognizing that the water resources of both the Great Lakes basin and the James Bay basin are precious public resources, and recognizing the constitutional jurisdiction of Ontario to manage and protect its freshwater resources, and recognizing the Great Lakes charter to which Ontario is a signatory, and recognizing that Simon Reisman, Canada's chief trade negotiator had publicly stated that the GRAND Canal project could provide key leverage to negotiate a free trade deal with the United States, this House condemns any attempt to link free trade with diversion of Ontario's water resources; that water resources cannot be part of any trade discussions with the United States, and that Ontario will not consent to any major diversion of its fresh water, now or in the future."

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The resolution was passed in May 1986 by a vote of 55 to six, with even those six being a minority of the Conservative members. All three parties had a majority, if not all, of their voting members voting for this resolution.

There certainly has been no indication that the current government has any different opinion from the resolution that was passed in the House. This raises a question: Could and does Ontario have the jurisdiction to absolutely stop any major diversion or trade of its fresh water resource to the United States?

I wonder if you could just comment in a little more detail on the jurisdictional dispute as to whether Ontario has the authority to absolutely stop any such project.

Mr. Chairman: Go ahead and answer if you wish.

Mr. Clark: I can only give a partial answer because I am not a lawyer and I am not well briefed on the constitutional rights of the provinces and the federal government here. As Don Gamble mentioned, the Pearce inquiry went into this in some detail. I have read its chapter on the issue. He concluded that the provinces have very considerable rights over water. On the basis of that rather general conclusion, I think that Ontario, unless it accepts the agreement—if the agreement is implemented, Ontario has probably—I am getting ahead of myself.

Today, before implementation of the agreement, Ontario would have the right to, say, block the GRAND Canal scheme or other diversion. I think that would probably be a fair statement. But if the bilateral agreement is implemented, then the federal government would have the legal right to prevent you from doing that, as I, as a layman, follow the debate on the way this agreement impinges on provincial rights.

Mr. Morin-Strom: Do you think it makes a fundamental impact in terms of a change in jurisdiction and powers here on an issue like this?

Mr. Clark: Yes. You see, what is really happening here, as I understand it, is that from day one the Americans knew that a number of the important concessions they wanted from Canada were under provincial jurisdiction, and the Americans never hid that. They set out their negotiating objectives at a very early stage going back to an exchange of letters between Senator Packwood and President Reagan right at the beginning of this, when Senator Packwood was chairman of the Senate finance committee. Concurrent with that, there was a resolution tabled in the finance committee by Senator Dole which, I am told, was drafted by STR. In the correspondence between Packwood and the President and in the resolution, the Americans stated that it was essential the provinces undertake all the obligations of the agreement.

What the agreement does is to transfer very considerable provincial powers to the United States, and it establishes the federal government as an agent of the United States to make sure the provinces carry out those obligations. The rights are not transferred to Ottawa. They are transferred to Washington. You cannot get the rights back unless you get the Americans' agreement. The agreement reduces Ottawa to being an American agent to police you fellows, rather than having the Americans do it directly. That is a layman's understanding of the situation.

Mr. Morin-Strom: Unbelievable.

Mr. Pelissero: Who is STR?

Mr. Clark: US special trade representative, headed by Yeutter who is a cabinet minister. He is the equivalent of our Minister of International Trade.

Mr. Villeneuve: Mr. Gamble and Mr. Clark, you have brought some great food for thought here to all of us in the Ontario Legislature. Could you paint in as few words as possible the worst-case scenario that could happen in the next 20, 50 or 100 years, as you have presented it.

Mr. Gamble: The reason this is so important to a group like ours is that there is no question that within the next decade we are going to be faced with water problems in this country that we have never seen before. There is a prediction of climatic change that is going to affect Canada dramatically before the year 2000. The scientific community is agreed on that. What they are finding is it is happening even more quickly than we had anticipated.

There are the kinds of situations we are seeing in the Prairies now with the drought conditions and the problems we have seen in the Great Lakes with the rise and fall in the Great Lakes. The Department of the Environment just released yesterday a report on climatic change and the effects in the Ontario region. They are predicting things like ski resorts becoming defunct; they will not be able to make snow. The levels in the Great Lakes will be seriously depleted.

What this kind of thing indicates to the kinds of scientists, lawyers and economists who belong to this association I am the director of is that we must plan carefully now because there will be a tendency to take very rapid action because of public pressure to do so. We can see on the horizon a problem coming. We must plot our course now very carefully. We do not know exactly what is going to happen. All we know is that we are in for some very dry times.

We are urging politicians to be very careful. This is the message in the Science Council of Canada's report. If we are to get from here to 2020, if we are to use this resource in a sustainable way into the 21st century, we have to start planning now.

Water pricing is one tool to do that, trying to decrease consumption. We are looking at more rational water allocations. Some of these grand schemes such as the GRAND Canal, and there have been many others—Pearse, in his report, identifies nine major interbasin-transfer, water export schemes that have been advocated since the mid-1960s.

As politicians, you are going to be confronted with a problem and you are going to be asked to respond now. What we are saying is do not put yourselves in the position where you only have one option, and do not lock yourself into some kind of agreement that will fetter your powers and fetter the way in which you can move in the future. Remain as flexible as possible and start advance planning, as the science council has recommended.

I am not opposed to free trade. Personally and professionally in my position, I am really concerned about water in this country and the aquatic resources of this country. If we enter something, all I am asking is, take the blindfolds off and let's fully understand where we are going. The future does not look good, quite frankly, but we can get our way out of this. We have the knowledge. We have tremendous water resources. We are better situated than the United States in this regard, but they are going to be very, very thirsty, and it is going to happen in the mid-1990s to the late 1990s.

Mr. Villeneuve: Of course, we are dealing with a renewable resource

and we are also dealing, as you mentioned, with a drought in western Canada. We could go back to the 1930s and the dust bowls. We do have cycles that operate that way.

The scenario you spoke of also said it will be melting some of the ice caps and creating some flooding. There was not a great deal of emphasis put on that one. However, it amazes me to see a very nationalistic government, that of Quebec, saying yesterday, from the Premier, that he does not think the free trade agreement would be canned or ripped up by whoever succeeds if the present government does not win the next election. I find some difficulty to accept that from that government. If any government in Canada is dependent on water, it is very well Quebec.

Mr. Gamble: Let me clarify one thing here. Quebec is not a prime candidate for water exports. The big water export schemes are going to affect Ontario and they are going to affect the Prairies the most, and perhaps British Columbia. Quebec's interest is in hydroelectric power exports. They have tremendous resources in northern Quebec. That is a separate issue all together, but let me come back to some simple situations.

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We are not into just another cycle. Climatic change indicates that we are going to see soil moisture depletion in the Prairies of 50 per cent before the year 2000. It is going to decline by 20 per cent in the western Arctic. We have never seen anything like this before. The president of the Royal Society of Canada gave a speech on Parliament Hill yesterday in Ottawa about the earth in crisis. He plodded through geological evidence of what has happened in the past. This has not happened ever before. There is no precedent for this. The scientific community is urging the utmost caution. We are into times of great uncertainty.

If you wish to proceed along something like agreeing in some way to open the door to water exports, at least let's understand what we are doing. Then let's set out, as has been recommended through the background studies to the Macdonald commission and the Pearse inquiry, a very methodical way of going about that. The way not to go about it is to pretend it is not there and to walk into it backwards and blindfolded.

Mr. Villeneuve: One final question: Much of our fresh water is owned jointly by Canada and the US. Where do you see changes occurring in that particular scenario?

Mr. Gamble: Perhaps the best example would be to ask the question we asked at the—one of the six questions was, how does this affect the International Joint Commission? The regulation of the Great Lakes is now jointly managed by the International Joint Commission, Canada-US. They have their own dispute resolution mechanisms. They have their own methods and principles that they operate under. They have their common fact-finding. The past chairman of the International Joint Commission, Judge Maxwell Cohen, has expressed concern about the implications of the free trade agreement on the IJC. If you want a place to start, there is a good one.

Mr. Villeneuve: Thank you.

Mr. Chairman: I indicated at the opening that Mr. Clark is prepared to talk about the General Agreement on Tariffs and Trade as well this morning. I have Mr. Pelissero, Mr. Mackenzie and Mr. Ferraro wanting questions on this.

I leave it up to you people whether you want to continue to discuss this or move on to other issues.

Mr. Pelissero: My question is going to be in the GATT-related area.

Mr. Chairman: All right. I just mention that.

Mr. Pelissero: I guess at times I have heard, Mr. Clark, that in fact the free trade agreement is GATT-compatible in that it is an allowable option for two countries to work out a bilateral trading relationship. From some of your comments this morning, I would take it that it is not so much GATT-compatible as GATT-tolerable in the sense that GATT, while it may recognize it, simply tolerates the agreement, in this case, between Canada and the United States. Would you care to comment on that?

Mr. Clark: A number of discriminatory regional agreements have been negotiated under article 24 of the GATT. I do not think one of them has been approved by the GATT and none has been rejected by the GATT. GATT and all of them have found a number of areas where they could not get unanimity, of course, or a consensus that they were either compatible or incompatible. What has happened is that they keep them under review. The key thing, the key factor in all of these bilateral agreements was the tariff. Tariffs are, I should say, the key factor in the formation of the European Community, the common market with the tariff, and of course that was the biggest one.

Virtually all tariffs are bound under the GATT, which means you cannot increase them unless you renegotiate them with the other interested parties and pay compensation. A good deal of the GATT activity that arose out of the formation of the European Community, and subsequently the accession of Britain, Denmark and Ireland and, more recently, Spain and Portugal, revolved around that provision. Because the community was establishing a common tariff, it was raising some rates and reducing others. First the community, and then its two expansions have resulted in quite substantial tariff negotiations.

There are a number of other things, nontariff measures and so on and so forth, that get involved in this. Usually, if they cannot really sort them out, there may be a dispute settlement system used. They may keep them under review, with working party reviews and so on. You keep the pressure up and so on.

Mr. Pelissero: When we were in Washington, in talking to some of the officials down there, I had the distinct feeling the United States was willing to give the GATT and the GATT process kind of one more chance. Failing that, they were looking to bilateral trading relationships with countries such as Canada, Mexico—in some areas there already is—and entering into discussions with Japan. First of all, do you get that feeling or get that sense that the United States feels this is it for GATT? "If we cannot work it out, we will make up our own rules." Second, if they enter into other bilateral preferential trading relationships vis-à-vis Japan, Mexico or other countries, do you see that as a threat to the whole GATT process and why it was put in place?

Mr. Clark: There are people in the Reagan administration who are thinking along those lines. I think we should review such comments in the history of US policy. Since Franklin Roosevelt came to power in 1933 until the Reagan administration, United States policy was to deal with other countries on a most-favoured nation or nondiscriminatory basis. The only significant exception to that was the auto pact, because the US-Israeli agreement was

negotiated under Reagan.

Reagan and his administration say: "To hell with you. If you will not play it our way, we are going to go and do business bilaterally." Admittedly, the Americans have suffered considerable frustration over the years from the community, especially its agricultural policies, but not only its agricultural policies.

I would not expect the United States to continue on that policy under a new administration, and I will tell you why. The basic interests of the United States require the most-favoured nation approach. The United States has so many countries that, first of all, it trades with. Its financial, military and geopolitical interests are so wide and far-reaching that to deal bilaterally with those countries on a discriminatory basis gets it into all kinds of trouble. I would expect a swing back to a more consistent, most-favoured nation policy under a new administration, especially a Democratic one.

Mr. Pelissero: Which leads to my last point with respect to, if the deal does not go through, can we expect to negotiate similar tariff reductions that we have experienced in the past? If this free trade arrangement does not go through, obviously as to the upcoming 1989 Uruguay round of GAIT discussions, do you have any thoughts on where we are going in that direction?

Mr. Clark: Yes. One of the points I was going to address, if there was time this morning, is whether there is an alternative. The Mulroney government has from day one, when it started attempting to prepare public opinion for opening negotiations with the United States, claimed that there was no alternative, but when you sit down and examine that, I think it strains credulity. I will just briefly comment, and make my comments now in the context of your question.

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I think, first, we should keep in mind that the Mulroney government has never presented the Canadian people with a cost-benefit analysis of the bilateral agreement, nor has it submitted to us a cost-benefit analysis of achieving the objectives bilaterally or achieving them in the General Agreement on Tariffs and Trade. In fact, the Prime Minister has never discussed costs except in the most vague and general way, which I can understand after reading this. I was retired, but this got the geriatric juices running.

Mr. Pelissero: You may come out of retirement.

Mr. Clark: Yes. Let me put it this way: Canada has certain strategic objectives in international trade that all governments follow, that all political parties could agree to. They would give a little different emphasis to achieving this objective or that objective, but the main objectives are the following: to increase our standard of living in this country by obtaining improved and more secure access to foreign markets at reasonable costs which do not impair national unity and do not put our sovereignty at risk. I think just about every political party in the country could subscribe to those objectives.

All right, let us take a quick look at the GATT and the bilateral agreement under those objectives.

Secure access: The Mulroney government claims that this bilateral

agreement substantially increases our security of access to the United States. I do not think that is the reality. The problem in getting secure access to any market, but especially the United States market, really begins with American corporations and trade associations. They use the so-called trade remedy laws, and especially dumping and countervail, as a means of obtaining a competitive edge over foreign competitors. That is what it is all about. They build such activities into their corporate plans. They spend fantastic amounts of money on lawyers and lobbying in Washington to achieve a little competitive edge.

Now, we have two ways of dealing with that problem. We have the GATT system, GATT rights and obligations and its dispute settlement system, and we can deal with them bilaterally under the US legal system. The history under GATT is that it provides expeditious and equitable settlements of disputes if you have a good case. I could give you two or three exceptions to that, but there have been well over 100 panel cases handled in the GATT, and if you go through those cases, the track record is very, very good.

Our history of settlements with the United States is especially good. The cases that we have initiated against the United States we usually win. In fact, we have won all of them that have gone to a panel decision, with one exception.

We have settled out of court a couple of times. The last one we settled out of court we lost big. That was lumber. Until this free trade agreement was negotiated, in my judgement, the lumber agreement was the worst agreement that any Canadian government had negotiated in the trade field in over 50 years. It gives the Americans control of our industry. There is a big loss of sovereignty. It substantially increases not only the cost of production of Canadian lumber but the cost of production for the whole forest industry if you transfer the export tax into increased stumpage.

Now, we could have won that case in the GATT. I researched that case very carefully. If we had deployed the case that could be made, we could have won that easily in the GATT. If we had won it, the Americans, after a certain delay and hesitation, would have removed the countervailing duties, or we could have forced them to do it, because when you win a case like that in the GATT, you have the right to retaliate on a discriminatory basis. All you would have to do is to circulate in Washington a list of the things you are going to retaliate against and you would be amazed at how the climate in that town would change to "Look, let's settle this one."

It is easy for them all to support the lumber people when there is a government up here that they expect will accommodate it. But if a government decides to dig in and use its rights and obligations, then you get a different reaction down there, because other people's ox might be gored.

A key reason the GATT has worked very well for us is that we are dealing under GATT law, and GATT law is formed by the various contracting parties. The United States is an important player, but it does not write the law by any means; Canada is an important player, but it does not write it all either. Cases that go to GATT are considered under GATT law. Furthermore, cases that go to GATT are now being processed through to panel decisions in about five and a half or six months from the time that a panel begins its hearings, and there is virtually no cost to it, because the case is handled by Canadian civil servants.

Now let's contrast that with what will happen under the bilateral

agreement for countervailing and dumping duties. Under the bilateral agreement for countervailing and dumping duties our complaints about American actions will be considered under US law, and the US can amend that law any time it feels like it. It seems to me that that is a very significant change.

Second, under the bilateral agreement Canada cannot ask for a binational panel to be established until the US procedures have run their course. In antidumping that can take 310 days, which can be extended to 420 days. In countervailing duties it can take 235 days, which can be extended to 300 days. Furthermore, after you ask for a binational panel, the panel has 312 days to reach a decision, so you are talking a year and a half to two years.

Under GATT, if the American Department of Commerce receives a petition, say, for countervailing duties or dumping duties, it has 20 days to assess the petition and decide whether to proceed with it. At the end of that 20 days, if the Americans decide to proceed with that petition, under GATT we can go to GATT and ask for a panel and we could get a panel decision in just about the time they were levying temporary countervailing duties.

Then look at the cost. I have been told that, in the first lumber case four or five years ago, the Canadian lumber companies spent between \$2.5 million and \$5 million on US lawyers. I do not have the figure handy, but the Saskatchewan potash companies spent one very considerable amount of money over the potash case, which lasted only a few months. How many Canadian companies are going to be able to pay American lawyers for, say, nine to twelve months to fight the thing in Washington and then again fight it before the binational tribunal? I do not think there is any question that this trade agreement substantially increases the risk of Canadian exports facing countervailing and dumping duties in the United States and all the related harassment. In my view, and I could spell this out in much more detail if we had the time, as you go through this step by step, the GATT provides much more secure access than the bilateral agreement.

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Mr. Ferraro: Can I have a supplementary?

Mr. Chairman: Before anyone has a supplementary, Mr. Mackenzie has to leave shortly and he did want to ask a question. Would you agree? Then we will get back to this issue.

Mr. Mackenzie: I think they are simple questions, Mr. Chairman. But there is not just one, there are three of them; they are all related. The water situation, and not knowing just exactly how we are or are not covered in the deal, coupled with the fact that we have got to wait five to seven years to decide what our subsidies are, strikes me as putting this in a position where we are really buying the proverbial pig in a poke on this deal. But the questions I have, if you will forgive me, relate back to the water issue, just because it is something we have not discussed at great length, and it was something I had done a little bit of work on a couple of years ago.

The first question, and I am not looking for great detail, but the Grand Canal project as such is one of the major propositions. Was it a potentially viable project at all in terms of money, directors? I understand that Mr. Reisman was a director of that particular company for a while. I had also heard that there was a fair amount of money in the company, including a substantial amount of money from one of our banks. I forget which one, but are you aware of just how viable that corporation was?

Mr. Gamble: A quick answer to your question: The company is private; it is very difficult to get access to that information. The only information I have is included in the article I wrote in Northern Perspectives, which Mr. Haggerty referred to. All I can say is that the company is backed by the major engineering firms in Canada. These are big multinational companies: the SNC Group, the UMA Group, Bechtel Canada Ltd. That gives us some indication of what is behind it, its potential resources. What that means in what their budgets are like or how much they are investing is something I cannot answer, and I do not know anybody who can.

Mr. Mackenzie: There was an article somewhere—I remember reading it—that also had a \$50-million figure. I think it was the Bank of Montreal, but I could be wrong on that. I know that Mr. Reisman had to withdraw as a director when he took over the negotiations of the Grand Canal project, did he not?

Mr. Clark: I think so.

Mr. Mackenzie: Second question: In a nutshell, as I understood the project, it was to build a large dike or dam across the James Bay and, through a series of power stations—I believe nuclear power stations were suggested—do a reversal. I think there was a foot or two-foot change in the water direction that had to be done. Is that, at the risk of oversimplification, what the mechanics of the project were?

Mr. Gamble: Just let me clarify it a little bit further. You have got the right idea there. The idea is to build a dike across James Bay. That would eventually turn it into a freshwater lake because of the rivers flowing into it.

Mr. Mackenzie: Yes. I cut down on my wordage just because I wanted to be sure—

Mr. Gamble: What they propose to do—and this is where Atomic Energy of Canada Ltd. is interested—is to build a number of nuclear power stations to power the pumps which would then take that water, bring it back over and put it into the Great Lakes basin.

Now, that takes a phenomenal amount of power, as you can imagine. I am an engineer by background, and there are some parts to this which are quite compelling because they have very clever ways in which they would use that off-peak power to supplement the Ontario grid through the system. This is, in some ways, an ingenious program. But you have got it right, basically.

Now, the project has been refined considerably in the last couple of years. They now advocate moving the water moved from James Bay back into the Great Lakes basin and moving it west as far as Lake Diefenbaker—that is as far west as I think it goes in Canada at the present time—and into a network of canals and natural river beds into the southwest of the United States.

Mr. Mackenzie: OK. That tremendous size of it sort of boggles the mind, but it also, I think, gives some idea of what is at stake when you take a look at water. If the scenario you outlined and others I am concerned about are anywhere near accurate, then it makes it a project that people certainly would look at.

My third question is related. As far as I know, the most ambitious water diversion projects ever carried out have been a couple of the major Russian

projects to reverse the flow of a couple of their rivers. Unless I am mistaken, I read an article very recently in the public papers of a decision that surprised much of the scientific world just within the last few months where, in spite of a tremendous investment—and it was in the billions; I forget how much—the Russians had just called a total halt to the reversal of either their second or their third major river, once again changing the flow so they could put it down into the more arid parts of the various republics that make up Russia as we know it, I guess. They had cancelled it abruptly in spite of the tremendous investment in this reversal because they had found out that the environmental consequences were so dramatic. I guess they have not released this information, but that was the gist of the story. Are you aware of that at all?

Mr. Gamble: Yes, I am. As a matter of fact, I sat on a panel with Mr. Kierans at the beginning of this month in Ottawa. There were three of us: Mr. Kierans, myself and a US expert on Soviet diversions. In his paper he described basically what you have outlined: that there were very large proposals to divert northward-flowing rivers in the Soviet Union and that those are now all on hold, if not completely cancelled. The reasons are twofold. One is environmental, which you have mentioned. The second is economic. These are fantastically expensive ventures, but with the change in the administration in the Soviet Union and with the ability of the scientists and other people to raise questions, there seems to have been a remarkable shift.

But I would correct one thing that you have stated. Canada diverts more water than any other country in the world. I will leave with your clerk the Proceedings of the Symposium on Interbasin Transfer of Water, and I would refer you in there to the paper called Dams and Diversions: Learning from Canadian Experience, by Frank Quinn, who is an official with Environment Canada, and Chad Day, who is an academic at Simon Fraser University. They outline in here the very substantial lead Canada has over any other country in diverting water, and that is why Canadian engineering firms have such a tremendous competitive advantage internationally.

Mr. Mackenzie: Just to finalize it, and I think it does have some relationship, were they overstating it in the article? It was a major article that spoke of rather catastrophic environmental possibilities. While we may divert more water, have we done the diversion of a total river? I understand they have done that to two smaller rivers, and they were now operating on this project, which, in terms of funding, was in the billions. It was already well under way with a lot of money spent, but they cancelled it totally because of their concern. The only concern that was listed—it may have been economic as well—was rather startling environmental facts.

Mr. Gamble: Yes. The environmental concerns were related to modelling that has been done to assess what the effect would be on climate when you stop the northward-flowing river's warm water and the nutrients going into the Arctic Ocean and the effect this would have on the weather patterns and the Arctic ice cap.

You are quite right. Those were the concerns that were raised. I do not have information on how much money was spent on any project before it was cancelled. I could certainly get that for you if you wanted it.

But let me bring it back again to a Canadian context. About two thirds of Canada's river flow is northward, while 80 per cent of our population lives within 200 kilometres of the US border. Now, when you start looking at these

kinds of numbers and you start to forecast what we anticipate with respect to water supply and drought conditions in Canada, you can see that the obvious answer if you want to manipulate watersheds is to start diverting those northward-flowing rivers.

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Mr. Mackenzie: I guess, whether we are right or wrong, the knowledge that you do not change things very quickly, as we know it, in the Soviet Union—to have invested that kind of money and then to have such a sudden cancellation of such a major project does raise some serious questions that they must have been faced with.

Mr. Chairman: Thank you very much. I apologize to our witnesses that we are jumping back and forth between the two topics. Mr. Ferraro now has a supplementary to Mr. Pelissero's question, followed by your own question.

Mr. Ferraro: Basically the supplementary is a question which has been addressed to some degree, and I need a clarification. First, let me apologize for being late, but I assure you that I will be reading Hansard. Thank you for coming.

Mr. Clark, you alluded to the process as opposed to taking the GATT route. Mulroney and the Don Rickles of Parliament, Mr. Crosbie, are indicating that we are going to have a much better system by going to this dispute settlement tribunal. The argument, of course, that has been put forth is that the timing of the GATT process has been excruciatingly long, that indeed this is going to be a much quicker resolution method.

You alluded to the fact that if you have done your homework, it will now take about six months, which of course is not long. I need clarification, though, as far as my understanding of how—and to digress a bit more, you cannot argue about our batting average or success rate at the GATT. So the timing is the only thing you can hang their hat on and say, "Big business, we are going to make it easier for you. It is not going to cost you so much money," and all the rest of it.

If there is an action in Canada, we go through the Department of National Revenue and the Canadian Import Tribunal and then, if we are not happy, we can either go through the courts or to GATT. The converse in the US is the Department of Commerce and the International Trade Commission. My understanding is that you had to go that route before you could get to GATT. You alluded to the fact that if you just went to the Department of Commerce, you could then go to GATT. Could you clarify the exact steps for me?

Mr. Clark: Under the US system, the interested parties petition the government for countervailing duties. That petition is initially considered by the Department of Commerce. Under US law, the Department of Commerce has 20 days to decide whether to proceed with the petition. If the Department of Commerce decides to proceed with it, we regard that as prima facie evidence that it believes, say, that Canada is subsidizing an export to the United States. After that 20 days, we can go to the GATT and say, "Look, we would like to establish a panel to consider this US action."

Mr. Ferraro: Have we done that historically?

Mr. Clark: Yes, we have. We did it in the lumber case. The Americans argued: "No, no. You should wait until you finish our procedures." But the

GATT council agreed with us. There is not much sympathy in the GATT council for American procedures. They all suffer from them at one time or another. It was a logical case that we put forward. They have taken a decision that they are going to proceed with this petition.

Mr. Chairman: Was that the second lumber case?

Mr. Clark: The second lumber case, yes. So that precedent has been established.

Mr. Ferraro: But the Americans would say, "We want to take it to the International Trade Commission and possibly to—"

Mr. Clark: The Americans continued to take it to the ITC and so on, while the GATT case was going on. Now that we have speeded it up—the GATT always did handle a lot of these cases expeditiously, but there were some cases that dragged on. The last two or three years they have tightened up considerably, with a lot of support from the United States because the United States uses the GATT panel system quite frequently. It has a big vested interest in an efficient GATT dispute settlement system.

Mr. Ferraro: Has the United States ever negated or not even paid much attention to a GATT ruling against it?

Mr. Clark: The United States, to a very considerable extent—I would have to go through my records on this—eventually implements GATT rulings. The longest time that I can remember was the famous case involving domestic international sales corporations, DISCs, where the United States in effect granted an export subsidy.

Congress passed a law which permitted the establishment of what were really dummy corporations that the big exporters used. By channelling their exports through them, they got a reduction on their taxes. A GATT panel found that was an export subsidy and therefore illegal, and the United States took seven years to repeal that law.

But I think the important thing here is that they did repeal it, even though it took that long, and they did accept the GATT decision, and, of course, the United States' action—their DISCs were reviewed in the light of GATT law. We have two cases now that we have won against the United States that are pending congressional action to implement the GATT decision.

Mr. Ferraro: The frightening thing now too, Mr. Clark, if one assumes the scenario that they are not going to have the election until after January 1989, is that really by having this deal implemented and signed, we now no longer have the option of going to GATT. They say you do; you have the option of going to GATT or going to this tribunal. But really, by signing this deal and implementing it, to go to GATT would be a totally nonsensical move.

Mr. Clark: Mr. Ferraro, we do not have that option. You are right that they say we do. But, again, they are not telling the truth.

In the first place, for subsidies and countervailing duties, this agreement itself prevents us from going to GATT. Then there is another provision in it under that that says in effect, for any other issue, you can go to GATT. But the GATT itself took a decision in the late 1940s, a decision of the contracting parties, which states that the GATT will not consider matters raised within the context of a bilateral agreement. Now, from that day

to this, no GATT contracting party has ever asked the GATT to consider an issue that relates to a bilateral agreement.

Mr. Ferraro: Mr. Clark, you are getting my almost geriatric juices flowing. This is the first time I have been told that we do not have the option per se. I thought de facto we were compelled because we signed the deal to play along with the rules; but I still thought, naïvely obviously, that we still had the option. Now you are telling me unequivocally that Canada does not have an option.

Mr. Clark: We do not. Just one minute.

Mr. Chairman: Could it be somewhere in chapter 19, Mr. Clark?

Mr. Clark: Wait one minute. I have it here some place. I have chapter and verse, if you want. Do you want chapter and verse?

Mr. Chairman: It would be helpful.

Mr. Clark: All right. Just give me a moment until I put my finger on it here.

Mr. Ferraro: Mr. Clark, really then what you are saying is that Canada is out of GATT. When one considers the magnitude of our trading with the United States—

Mr. Clark: Canadian-US trade relations in effect are taken out of GATT by this agreement.

Mr. Ferraro: Because Ontario trades 90 per cent with—

Mr. Clark: —the US. You are out of GATT. Forget about GATT.

Mr. Ferraro: —and Canada 78 per cent. We are out of GATT.

Mr. Clark: Wait one minute here. Findings is another thing. Another claim they make is that the findings of this binational tribunal are binding. In most cases, and certainly in subsidy and other billing cases and dumping cases, they are not binding.

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"Recourse to GATT." Here is something I recently wrote that has not been published yet. Perhaps the simplest thing to do is just read you a couple of paragraphs, because it does give the articles and so on.

"Article 1801, paragraph 2 provides that disputes arising under both the bilateral agreement and GATT 'may be settled in either forum...at the discretion of the complaining party.' Article 1801, paragraph 1 makes it clear that the option of referring a complaint to a GATT panel does not apply to countervailing and dumping cases. More important is the 1949 GATT decision that 'The determination of rights and obligations between governments arising under a bilateral agreement is not a matter within the competence of the contracting parties.' During the intervening 39 years, the GATT has not established a panel to examine a dispute arising out of a bilateral agreement. The situation therefore is that Canada could not refer a countervailing and dumping case to GATT under any circumstances. Nor is it likely that GATT would establish a panel to examine a complaint involving other bilateral agreement

rights and obligations until the 1949 decision is changed and the prospects of GATT making such a change are not good. Article 1801, paragraph 2 is an illusion."

That is my conclusion and the reasons for it. If you want to follow up some consequences of that, the next paragraph reads:

"Adverse consequences of being locked into the CBA can be illustrated by reference to a letter dated March 1, 1988, that Ambassador Gotlieb sent members of the US Congress (Addendum 'B')."

Mr. Chairman: I think we have a copy of that letter.

Mr. Clark: You have a copy of it?

Mr. Chairman: I think we do. Is that the one where he is complaining about the omnibus trade bill?

Mr. Clark: Yes, the omnibus trade bill.

"The letter stated: 'My government remains deeply concerned that many of the provisions of the House and Senate bills currently in conference would severely damage our trading relationship and undermine the benefits for both countries of the free trade agreement....' The attachment to the letter sets out 11 Canadian concerns regarding proposed amendments to US antidumping and countervailing duty laws. For reasons explained above, the amendments, if adopted, would automatically be part of the bilateral agreement," because under the bilateral agreement, American law applies.

"Again, for reasons explained above, it is almost certain that US companies will take advantage of the amendments to petition for antidumping or countervailing duties on imports for Canada and binational panels would be required to judge Canadian complaints on the basis of the amended US law -- a 'heads US wins and tails Canada loses' situation. Since under both the GATT and the bilateral agreement Canada would not have recourse to a GATT panel, any complaints would be considered by a binational panel on the basis of US law, even though, as the attachment states, seven of the amendments were not consistent with US and GATT obligations." But under the bilateral agreement, we cannot do anything about it. We have to accept them, consistent or not.

Mr. Ferraro: The last question I have and I must ask this question—

Mr. Chairman: Is it a supplementary question or a new one, because I have a supplementary?

Mr. Ferraro: It is a new one.

Mr. Chairman: Just prior to that, did you follow through the softwood lumber dispute? As I recall, the Department of Commerce decision was made in October 1986. The complaint was in early 1986. The 20 days would have applied, then we could have gone to the GATT. Are you then indicating that the whole thing could have been completed in about six months thereafter?

Mr. Clark: The Mulroney government aborted the GATT panel work. They aborted it when they signed the lumber agreement with the United States. That agreement with the United States was signed in December, and I think Miss Carney was in Hawaii or something. Now, if we had not signed that agreement and let the GATT panel proceed, we would probably have had a GATT decision by

the end of January or early February.

Mr. Chairman: Are you suggesting that the 37 per cent tariff that we were afraid of would have applied for about a month?

Mr. Clark: They might have kept it on a little longer but we could have got it off. Unfortunately, I do not have time today but there are a number of specific things that we should be seeking first in the GATT, in the Uruguay round of negotiations, to provide greater security of access to the United States and I think we could achieve most of them.

Furthermore, there are some very important things that we could do ourselves to increase security of access. Let me name two or three of them. First, we should make the Employment Support Act operational. That was an act the federal government passed in 1971 to offset the effects of the American surcharge on Canada. It is still on the books, but, boy, if we made that active and the government indicated that it was going to use it whenever a foreign government levied countervailing duties or dumping duties or took some other trade action against Canadian exports that the Canadian government believed was inconsistent with its GATT obligations, that would go a long way to discourage American corporations from moving. That is the first thing.

Secondly, in the GATT, we should be seeking a provision—I think we could probably get this one—that if a panel finds that a country has illegally used a trade measure to restrict imports, that country should be required to pay compensation in terms of reducing other barriers to its imports or, possibly, in the exporting country, retaliating for a period against its exports.

As a hedge against not getting that in the GATT, I would suggest the Canadian government bring in a law that will compensate and pay the legal costs for Canadian companies caught up in foreign action where they have to pay foreign legal bills, providing the Canadian government itself believes that we have a good case. Now, some cases are not good. Some cases we cannot win and in fact we should not win, but in a number of the cases that have arisen we do have a good GATT case.

You see, what has been happening here is that the Mulroney government will not use the Employment Support Act. They should have used that in the lumber case. They could have used that to keep our lumber companies viable until they fought this thing through the GATT. If the American lumber companies had known that and if the American government had known that, events might have taken quite a different course.

Mr. Ferraro: I must admit I personally believe that the loss of sovereignty and control that we have given up vis-à-vis our energy resources and water is probably the worst part of this deal. Up until your revelation that we are really in effect out of GATT, I thought it was the worst part and indeed I think they are probably both on the same plateau now as far as my concerns go.

When you look at all the rhetoric and revelations and statements being made and all this, the feds can come back and say, "Well, Ferraro, if you don't like the damned thing, you can get out of it with six months' notice." It is all too simple. Specifically to you Mr. Clark—or Mr. Gamble, if you would like to respond—would you indicate if in fact it is that simple? Secondly, and perhaps more importantly, would you indicate if you had the power, if you were the head politician, what would you do with this deal?

Would you tear it up? Would you massage it? What would you do?

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Mr. Clark: If I had the power, I would tear it up. I would put it through a shredder. The real effect of this agreement is to strip Canadian governments, provincial as well as federal, of many of the powers that they now have to intervene in the economic process for economic, social and national reasons. It will turn us back to the economic system that existed in the last century. It would be rather Darwinian. That is one of the consequences.

The second consequence is going to be that it establishes a basis for an attack on our social programs, partly from our own corporations and partly from the Americans, who insist that they are subsidies. They can change their law to accommodate that and that will become the law of the agreement. They will try to work our social system back to at least the level of the US system.

The third consequence is that it puts us on the track to economic and political union with the United States. These powers that we lose are transferred to Washington and held in escrow. We cannot get them back unless they agree. In the highly unlikely event they would ever agree to sending one back, there would be a high cost attached to it. If this agreement goes forward, my grandchildren will be American citizens before they die. I do not think there is any doubt about that.

As a trade agreement, it is misnamed. As a trade agreement, it is not much of an agreement. We measure trade agreements by the reduction of tariffs and nontariff measures to imports, import products. Just let me give you a figure here: the average American industrial tariff today is one per cent. That includes duty-free items. The average Canadian industrial tariff, including duty-free items, is three per cent or four per cent. I forget which it is. One or the other.

The most significant reduction in nontariff measures is in the government procurement agreement and that is a minimal result compared to what we produce in the GATT. Under the GATT, since the inception of the GATT plus two MFN negotiations conducted with the United States before the war, the United States tariff has been reduced from an average of 50 per cent to one per cent.

Mr. Chairman: Much as I hate to do it, I am going to have to cut this off because we apparently have three minutes to get into the House.

Mr. Ferraro: A last supplementary, Mr. Chairman. The end result of tearing it up is that you no longer have this deal, but from a logical standpoint or a business acumen standpoint, and I am as emotional about the fear of this deal as anyone, would it not be just as viable to serve notice and in six months say we are out of this deal, and at least you have done it optically in due process? I mean, to say you would tear it up makes great headlines for one day, but from—

Mr. Clark: I would not want to be a minister of the government in power that says it is going to back out in six months. You come under very heavy pressure from the corporate interests of this country.

Mr. Ferraro: But if you tear it up unequivocally, without due process, you are also going to have a hell of a lot of American—

Mr. Clark: I would not worry about that, because what will change? We can continue to do business with the United States under the GATT. There is a big GATT negotiation going on that is really implemented by the United States. The United States has big objectives that it is seeking there. It is at the wrong door in those negotiations in many ways. We always have a number of issues in GATT negotiations where our interests converge, at least to some extent, with those of the United States. On some they diverge. We just carry on doing business as usual. Sam Gibbons will complain and some others will complain, but six months—

Mr. Chairman: Unfortunately, the Legislature has deemed that hearing-ear dogs are more important and I am going to have to adjourn this meeting, but I really appreciate your attendance. I know all members now understand what I was talking about with regard to your source of information and awareness of the deal, Mr. Clark and Mr. Gamble.

The committee adjourned at 12:05 p.m.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

MONDAY, JUNE 27, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, June 27, 1988

The committee met at 3:29 p.m. in room 151.

FREE TRADE REVIEW
(continued)

Mr. Chairman: Perhaps we can get started. The committee was hoping to hear from the Attorney General (Mr. Scott) either today or tomorrow with regard to the question of the constitutional audit. Unfortunately, he is not available. I was talking to him briefly before the committee commenced. The major reason he is not here is the Meech Lake debate, which is occurring in the House. He is, however, interested and anxious to report to the committee, and we will continue to liaise with his office to see when that can occur.

That being the case, and it being a bit of a strange situation in that the committee on other occasions perhaps would have liked to use this room for other matters, it will be the case that we will, unless there is a desire otherwise, move on to commencing to write our report. It may be that most of these proceedings over the next two days will be in camera and, therefore, there will not be any need for the television proceedings. The clerk has indicated to me that he attempted to find out whether there was another committee that might wish these rooms, and none of the other committees does, so here we are. I am being a little presumptuous when I say the committee may wish to go in camera in writing its report.

I believe the committee has in front of it a report of the subcommittee dated June 16. I would be open now to discussion of that report and its adoption if the committee feels it is appropriate. Basically, what we were informed, and I think this information was received subsequent to the last committee meeting, was that we will have three weeks to sit, not two, as we initially thought, namely, the weeks of August 15, August 29 and September 19. The subcommittee has indicated its preferences for utilizing those three weeks, as has been set out in that report. Is there any discussion?

Mr. Pelissero: I so move.

Mr. Chairman: All those in favour? Opposed? Carried.

Mr. McLellan, who has joined us again after some illness, is prepared this afternoon to discuss with you, and perhaps to go into some detail, his ideas and his interests in the resumé of the outline of our report. I suggest we might consider whether we wish to go in camera at this stage. Is there any discussion on that?

Mr. McCague: I so move.

Mr. Chairman: All those in favour? Opposed? Carried.

Interjection: For two days?

Mr. Chairman: The question was, is it for two days? I rather expect that it will be.

The committee continued in camera at 3:34 p.m.

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